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1983 Finance Facts Yearbook

A Factbook About
Consumers and the Consumer
Finance Business

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Prepared by
Dale D. Griffa
Research Assistant

Ysabel Burns
Research Associate

Thomas A. Durkin
Director of Research

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FOREWORD

Finance Facts Yearbook is an annual publication of the American Financial Services Association (formerly known as National Consumer Finance Association) which also publishes the monthly "Finance Facts" and research reports on consumer financial matters. These and other publications are offered at a nominal charge as a public service by the American Financial Services Association, whose members number 550 companies providing financial services to consumers through over 15,000 offices in the United States and Puerto Rico.

AFSA's membership is comprised of organizations commonly referred to as consumer finance companies, sales finance companies, industrial banks and industrial loan companies. Some members have insurance and retail subsidiaries, some offer commercial financing, some have manufacturing subsidiaries, some operate in Canada and some in Europe, Australia and Asia. Several members of AFSA are subsidiaries of highly diversified parent corporations, while others are subsidiaries of manufacturing companies, others of insurance companies, and others of bank holding companies.

The first six chapters of the yearbook provide a convenient reference source of current information about significant aspects of the consumer sector. The human factors are briefly outlined: the size and make-up of the population as the underlying determinant of the types of goods and services needed; and the size and make-up of the adult population as the potential labor force to supply those goods and services. A review of consumer income, expenditures, saving and investment is followed by a description of consumer credit and the institutions involved.

Chapter 7, "The Consumer Finance Industry," provides a description of the business of finance companies and industrial banks, their markets, their sources of funds and other distinguishing characteristics of these financial institutions. Included is a brief account of the legal and regulatory framework within which these companies operate as well as the latest statistical information relative to finance company operations. The final section of Chapter 7, "DIDMCA" relates the implications for finance companies of the implementation of provisions of the Depository Institutions Deregulation and Monetary Control Act of 1980.

Finally, the "List of References" may be helpful to those who wish to obtain more information on the consumer finance industry.

Thomas A. Durkin
Director of Research
American Financial
Services Association

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CHAPTER 1

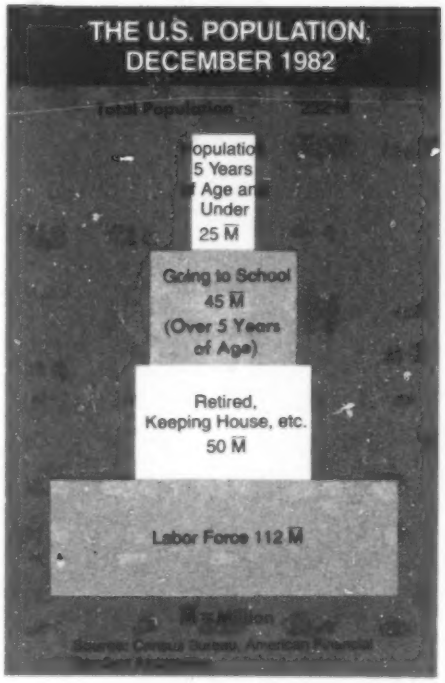
THE POPULATION

The size and composition of the population are basic to both the extent of consumer wants and to the types of goods and services required to satisfy them. Demographic and geographic characteristics, as well as education and mobility of the population are important factors in the economic processes of saving, investment and spending and in determining the types of goods produced. The proportion of the population capable of producing goods and services—the potential labor force—places a limit on the availability and variety of goods and services made available by an economy.

Historically, long-term growth has been a reality in the United States economy as the result of enterprising business leadership, a skilled labor force, and improved technology within a stable political system. To provide the goods and services to satisfy consumer wants in the U.S., well over half of the population serves as producers, either in the labor force or in the home. To secure the basis for a future viable economy, over one-fifth of the U.S. population are in the process of education and training for the world of work.

The population of the U.S.; including members of the Armed Forces overseas, was estimated at 232 million in December 1982. Of this total about 112 million (48%) were in the labor force, about 50 million (22%) were housekeepers, retired or "others" 16 years of age and over, who were not part of the paid labor force.

CHART 1



About 45 million (19%), were going to school to prepare for future production activity. Many of these students were also working, at least part-time. Some 25 million (11%) were 5 years of age or younger (Chart 1).

Demographic characteristics of the population are important in determining current patterns of spending, saving and

production, projections about these characteristics permit advance planning for more efficient use of resources by individuals, business and government. The following sections provide data on some of the more relevant demographic determinants of economic activity.

Population Growth and Family Formation

The population of the United States including members of the Armed Forces overseas was estimated in mid-1982 to be 232.0 million. By 1990, it is expected to increase by 5.0% and stand at approximately 243.5 million. The projection suggests an annual growth rate of approximately 0.6% (Table 1). Growth rate changes reflect, for the most part, changes in the birth rate and to some extent changes in immigration policy.

As the birth rate declined after 1957, the growth rate of the population fell to low levels of 1% or less starting in 1968. Preliminary data for 1982 suggest a natural increase of 0.7% and an increase of 0.2% from immigration. The number of births in 1982 was 3.7 million. This is in contrast to an average of 4.16 million each year during the first half of the 1960's. The death rate has remained fairly stable over the past five years and stood at 8.9 per thousand in 1982.

The number of marriages increased steadily from the low of 1.45 million in 1958, until it reached 2.28 million in 1973. However, there was a decline to 2.13 million in 1976, followed by a gradual rise to 2.5 million in 1982. Marriage rates per 1000 population decreased slightly in 1981 and 1982. The divorce rate which had increased rapidly since 1971 but dropped slightly in 1981, in-

TABLE 1

POPULATION AND NUMBER OF HOUSEHOLDS
JULY 1 OF SELECTED YEARS, 1978-1995*

(In millions)

	1978	1979	1980	1981	1982	Projected** 1990	1995
Population	218.7	220.6	228.7	229.8	232.0	243.5	252.6
Households	76.0	77.3	80.8	82.4	83.5	96.7	103.9
Husband-wife	47.4	47.6	49.1	49.3	49.6	54.7	56.7
Other	28.7	29.7	31.7	33.1	33.9	42.0	47.2
Male Householder	9.4	9.7	10.5	11.2	11.4	14.9	17.1
Female Householder ...	19.3	20.0	21.1	21.9	22.5	27.1	30.1
Living Alone***	(16.7)	(17.2)	(18.3)	(18.9)	(19.4)	na	na

Source: Bureau of the Census

Note: Parts may not add to totals due to rounding.

* Population and projected households as of July 1 of each year; estimates of households for years 1978-1982 as of March.

** Population growth conforms to the Census Bureau Series II projection which is the middle estimate of three projections. Projections of number of households are the Census Bureau Series B based upon trends in marital status and householder proportions over the 1964-1978 period. A household consists of a person or group of persons who occupy a house, an apartment or other group of rooms, or a room that constitutes a housing unit.

*** Of the "other" households, those that constitute one-person households.

creased slowly in 1982, when it stood at 5.3 per 1000 (Chart 2).

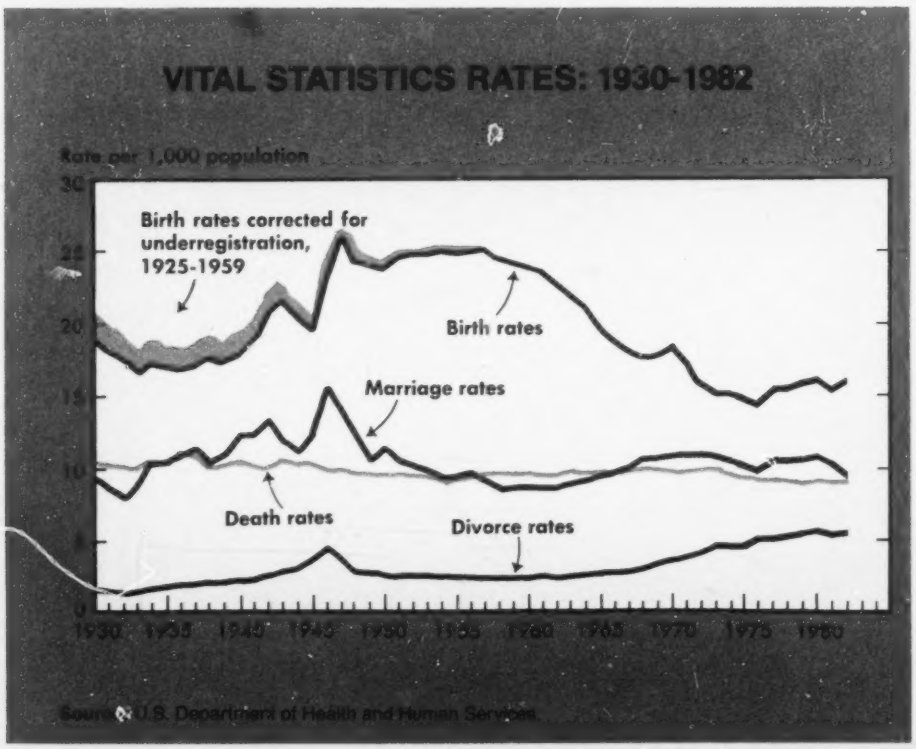
Households

Trends in family formation and in the number of households have special economic significance because the primary unit of consumption for many goods and services is not the individual but the family or the household. This is especially true for housing and consumer durables such as automobiles, home furnishings and appliances. If, as is expected, present trends in family and household formation continue and the long-term trend in economic activity continues upward, subject only to short pauses during the next several years, it is anticipated that the number of households will increase from 83.5 million in 1982 to about 96.7 million in 1990.

Households increased by 7.5 million between 1978 and 1982. About 36% of this increase consisted of persons living alone compared to an increase of almost 30% for husband-wife households. The remaining 34% of the increase consisted of households of two or more persons (other than husband-wife households).

The average population per household in March 1982 was 2.72 persons, having dropped off each year since 1964 when the average size was 3.33 persons. The change resulted from the falling birth rate through most of the 1960's and the early 1970's (which is reflected in a decrease in average number of children under 18 years of age per household from 1.23 in 1964 to 0.75 in 1982) and the increasing proportion of adults who are living alone. Average population per family of related persons dropped from 3.70 in 1964 to 3.25 in 1982.

CHART 2



Age Groups

Changes in the number of persons in various age groups of the population impose changing requirements on the economy, especially concerning the demand for different types of consumer goods, the need for an expanding job market, and requirements for educational facilities.

Table 2 shows the number of persons in each age group and the distribution by sex as estimated for selected years 1978 to 1981, and as projected by the Census Bureau for 1982, 1990, and 2000. While the total number in each group is of interest for present-day marketers and others serving the consumer, the rate at which the size of these groups is changing is of

TABLE 2

POPULATION INCLUDING ARMED FORCES ABROAD
BY AGE AND SEX
JULY 1 OF SELECTED YEARS, 1978-2000

(In millions)

					Projected		
	1978	1979	1980	1981	1982	1990	2000
Years of Age							
Both Sexes							
Under 5	15.4	15.6	16.3	16.9	17.4	19.2	17.6
5 to 15	39.6	38.6	34.9	34.3	37.6	38.6	42.1
16 to 24	37.4	37.6	42.7	42.4	38.1	32.3	32.2
25 to 34	34.0	35.0	37.3	39.0	39.5	43.5	36.4
35 to 54	47.6	48.1	48.5	49.0	50.5	63.2	80.8
55 to 64	20.7	21.0	21.7	21.9	22.1	21.1	23.8
65 and over	24.1	24.7	25.5	26.3	26.8	31.8	35.0
Total	218.7	220.6	227.0	229.8	232.0	249.7	268.0
By sex							
Under 16							
Male	28.1	27.7	27.5	27.5	28.1	29.6	30.6
Female	26.9	26.6	26.3	26.3	26.9	28.2	29.2
16 to 24							
Male	18.9	19.0	19.0	18.9	19.4	16.4	16.4
Female	18.5	18.6	18.6	18.5	18.8	15.8	15.8
25 to 54							
Male	40.0	40.8	41.6	42.4	44.4	52.9	58.4
Female	41.5	42.3	43.0	43.8	45.6	53.8	58.8
55 to 64							
Male	9.8	9.9	10.0	10.1	10.3	9.9	11.3
Female	10.9	11.0	11.2	11.3	11.8	11.2	12.5
65 and over							
Male	9.8	10.0	10.1	10.3	10.8	12.7	13.7
Female	14.3	14.6	14.8	15.1	16.1	19.1	21.3
Total							
Male	106.6	107.5	108.3	109.2	112.9	121.5	130.4
Female	112.1	113.1	113.9	115.0	119.1	128.2	137.6

Source: Bureau of the Census
Note: Parts may not add to totals due to rounding.

greater concern for planning by business and government. The changes in the numbers in the various age groups from 1978 to 1982 and projected for 1982 to 1990 and 1990 to 2000 are shown in Chart 3.

The number of young people at home or in school—those under 16 years of age—was the same in 1982 as in 1978 but is expected to increase by 2.8 million between 1982 and 1990 and by 1.9 million between 1990 and 2000. This projection is based largely on a rise in the early 1980's in the number of young women in the prime childbearing ages of 20 and 29 years and reflects a slowly rising birth rate following the precipitous drop that occurred in the early 1970s.

The number continuing their education or starting careers—those 16 to 24 years—increased by 0.7 million between 1978 and 1982; the number in this group will decrease by 5.8 million between 1982 and 1990, and decrease by 0.1 million between 1990 and 2000.

The largest segment of the population, that is those 25 to 64 years of age, most of whom are in the labor force or homemakers, numbered 9.8 million more in 1982 than in 1978. This group will increase by 15.7 million between 1982 and 1990, and by 13.2 million between 1990 and 2000.

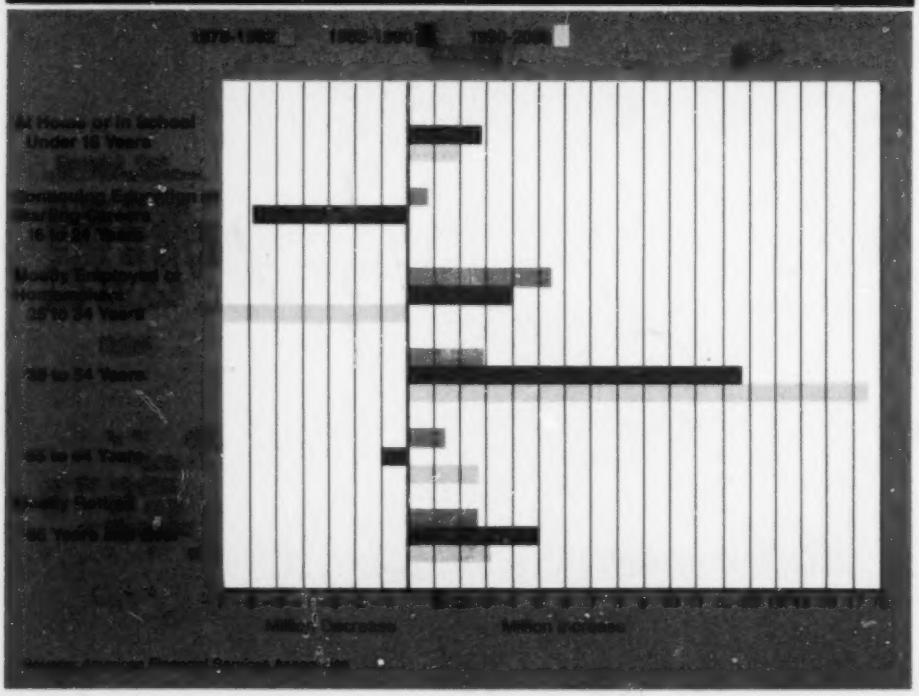
The older population, those 65 and over, most of whom are retired, numbered 2.7 million more in 1982 than in 1978.

Population Mobility

Movers typically have different characteristics from persons who do not move. The highest mobility rates are usually found for persons in their twenties. Many are establishing their own households,

CHART 3

CHANGES IN POPULATION, BY AGE GROUPS



starting new jobs, finishing school or service in the Armed Forces, or have been recently married. In their later twenties, many are buying a house or moving to larger living quarters because of the addition of children to their family, or are moving to housing more convenient to schools.

In the period between March 1980 and March 1981, of those that changed residence, 16.1% were 25 to 29 years old (in 1981) and 20.9% were 20 to 24 years old. Fewer than 6.9% of the persons 55 years old and over in 1981 moved between 1980 and 1981.

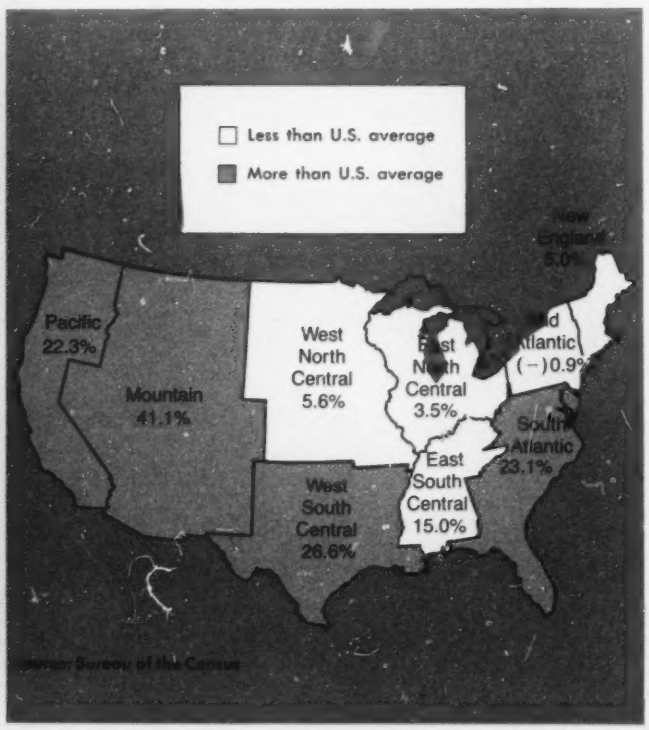
By education attainment residential mobility between March 1980 and March 1981 was as follows: 9.1% of those persons with 8 or less years of school completed had moved to a different house in the United States, while 54.5% of those with 1 to 4 years of high school and 36.4% of those with at least some college had moved.

Population Change by Region

The total U.S. resident population growth of 15.7% between 1970 and 1981, and growth of various regions of the country are shown in Chart 4. Greater than averge U.S. gain in the resident population since 1970 occurred in the Mountain states (41.1%), West South Central states (26.6%), Pacific states (22.3%), and South Atlantic states (23.1%). Less than average U.S. gain occurred in the East South Central states (15.0%), the New England states (5.0%), West North Central states (5.6%), and East North Central states (3.5%). Only the Middle Atlantic states showed a decline of 0.9%. Part of the differential in rates of population growth is explained by differing birth rates, but most of the change resulted from changing economic developments and the highly mobile character of the population of the United States.

CHART 4

CHANGES IN RESIDENT POPULATION BY REGIONS, 1970-1981 TOTAL U.S. 15.7%



CHAPTER 2

IN SCHOOL AND ON THE JOB

The potential of an economic system to provide goods and services to satisfy human wants is limited by the size and skills of the labor force and by its managerial capabilities.

Labor force participation and education are necessarily interrelated in the modern world. The capability and quality of the present-day work force is a product of past education and training. The productivity of the labor force will also depend on continuing education and training, and on government policies and practices.

School Enrollment

Approximately 58.4 million persons 3 to 34 years old were enrolled in school or college in the United States in October 1981, the latest date for which statistics are available (Table 3). This number enrolled in school part-time or full-time, comprised 48.9% of the population 3 to 34 years of age.

School enrollment rates for children 3 to 4 years old has increased over the past 9 years. In 1972, 24.4% of the children 3 to 4 years old were enrolled in nursery school or kindergarten; in 1981, 36.0% were enrolled.

School enrollment rates continued to rank high for the compulsory attendance ages. Over 99% of those age 7 to 13 were enrolled in school in 1981.

The declining number of younger children, however, has caused a drop-off in the grade school population. Elementary school enrollment peaked in 1970 at 34.0 million and had dropped by 18.2% to 27.8 million in 1981. High school enrollment in 1981 showed an increase for the first time since 1976.

The number of college students was 8.3 million in 1972 but in 1981 there were 10.7 million college students, an increase of 29%. From 1972 to 1981 the majority of the increase in college enrollment was due to the growth in women's college attendance. Women increased their enrollment by 55%, whereas men increased theirs by about 11%. Women have constituted over half of the college population since 1979. These developments coincide with other social and economic changes that have occurred recently among women such as marrying later, having fewer children, increased participation in the labor force, and continuing to work after children are born. In recent years, more women than in previous decades have been participating in the labor force making economic use of their education.

Another reason for the large increase in female enrollment was the substantial rise in the number of older women attending college. The number of women 25 years of age or older in college more than doubled between 1972 and 1980, increasing from 999,000 to 2,425,000. By contrast college attendance by males in this age group increased only from 1,543,000 to 1,895,000.

Potential Labor Force

The total number of persons that may be available for work, which may be called the potential labor force and defined as the noninstitutional population 16 years of age and over, averaged 174.4 million in 1982 having increased by 1.2% from 1981 (Table 4).

Actual Labor Force

The labor force, defined by the Department of Labor and the Bureau of the Census as those employed and those looking for employment, amounted to 112.4 million persons in 1982 having increased at a rate of 1.4% over the previous year.

Those 16 years of age and over who were not in the labor force—those keeping house, going to school, unable to work and those retired—numbered 62.1 million in 1982, up almost 1.0% from 61.5 million in 1981.

Labor Force Participation

The total labor force averaged 112.4 million in 1982, up 1.6 million from 1981. With no reductions in the number of Armed Forces members, the civilian labor force also rose by 1.5 million, slightly less than the 1.8 million increase for 1981. Average civilian employment for the year decreased by 0.9 million to 99.5 million (first decrease since 1975), and unemployment increased by 2.4 million.

Labor force participation rates change from time to time for many homemakers, students, retired and disabled persons and persons "doing their thing." By age, those in the 16 to 19 year age group are the least likely to be consistently in the labor force

TABLE 3

LABOR FORCE PARTICIPATION OF THE POPULATION
SELECTED YEARS, 1978-1982

(In millions of persons 16 years of age and over)

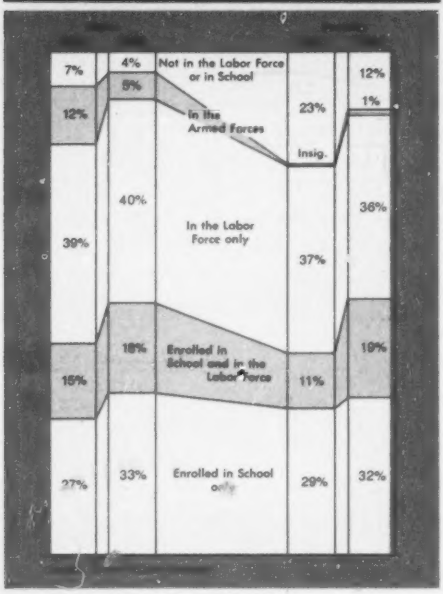
	1978	1979	1980	1981	1982
Population 16 years of age and over					
Total	163.7	166.4	175.8	178.6	177.0
Noninstitutional*	164.0	167.0	169.8	172.3	174.4
Labor force including armed forces	104.4	107.0	109.0	110.8	112.4
Armed forces	2.1	2.0	2.1	2.1	2.2
Civilian labor force ...	102.3	105.0	106.9	108.7	110.2
Employed	96.0	98.8	99.3	100.4	99.5
Unemployed	6.2	6.1	7.6	8.3	10.7
Not in labor force	59.7	59.9	60.8	61.5	62.1

Source: Bureau of the Census and Bureau of Labor Statistics.
Note: Parts may not add to totals due to rounding.

*Does not include those in mental, penal or welfare institutions.

CHART 5

YOUNG PEOPLE 16-21 YEARS OF AGE IN SCHOOL AND IN THE LABOR FORCE 1970 AND 1982



and their participation has been dropping since early 1979 (Chart 6). There is a slow long-term decline in the participation rate of males 20 years of age and over, from 82.0% in 1972 to 78.8% in 1982. By contrast, participation in the labor force by women 20 years of age and over has increased from 43.9% in 1972 to 46.8% in 1982, with intermittent periods of even higher participation.

Industry Employment

Nonfarm payroll employment dropped in 1982 by 1.2 million. In State and local government there was a decrease, while Federal employment fell off to end 1982 slightly below the 1976 level. Employment in transportation and public utilities decreased from 1981 as well, as did contract construction employment. The number of jobs in the goods-producing sector dropped again during 1982 and at year-end stood at about the same level as at year-end 1972. Only in the service-

TABLE 4

ESTIMATED SCHOOL ENROLLMENT, SELECTED YEARS, 1977-1981*

(In thousands)

By Grade	1977	1978	1979	1980	1981
Nursery school	1,618	1,824	1,869	1,987	2,058
Kindergarten	3,191	2,989	3,025	3,176	3,161
Elementary school	29,234	28,490	27,865	27,449	27,795
High school (grades 9-12)	15,753	15,475	15,116	14,556	14,642
College or professional school	10,217	9,838	9,978	10,180	10,734
Total	60,013	58,616	57,854	57,348	58,390
By Selected Age Groups	(Percent of population enrolled)				
18 and 19 years	46.2%	45.4%	45.0%	46.4%	49.0%
20 and 21 years	31.8%	29.5%	30.2%	31.0%	31.6%
22 to 24 years	16.5%	16.3%	15.8%	16.3%	16.5%
Total 3 to 34 years	52.5%	51.2%	50.3%	49.7%	48.9%

Source: Bureau of the Census

Note: Parts may not add to totals due to rounding.

* Estimates are for the population 3 to 34 years old and for October of each year.

producing sector did employment continue its long-term growth pattern, little affected by cyclical downturns (Chart 7).

Occupations

The number of white-collar workers averaged 54.4 million in 1982 up from 53.6 million in 1981 with all types showing increases (Table 5).

Blue-collar employment at 28.3 million in 1982 was 1.7 million below 1981, while service workers showed a 0.1 million increase and the number of farm jobs was 2.4 million.

Unemployment

The unemployment rate averaged 10.5% in 1982 up from 8.3% in 1981. The rate for teenagers, however, approximated 23.7% in contrast to 10.3% for adult males and 8.8% for adult females (Chart 8). One indicator of manpower requirements is the Help-Wanted Index of The Conference Board (Chart 9). This index reached highs of over 120 in 1969 and 1973 (Index 1967 = 100), was at a low of 72 in early 1975, reached another high point of 168 in November 1979, dropped to 130 by year-end 1980, to 109 by year-end 1981, and to 83 by year-end 1982.

CHART 6

CIVILIAN LABOR FORCE PARTICIPATION RATES BY SEX AND AGE, 1965-1982

(Seasonally adjusted)

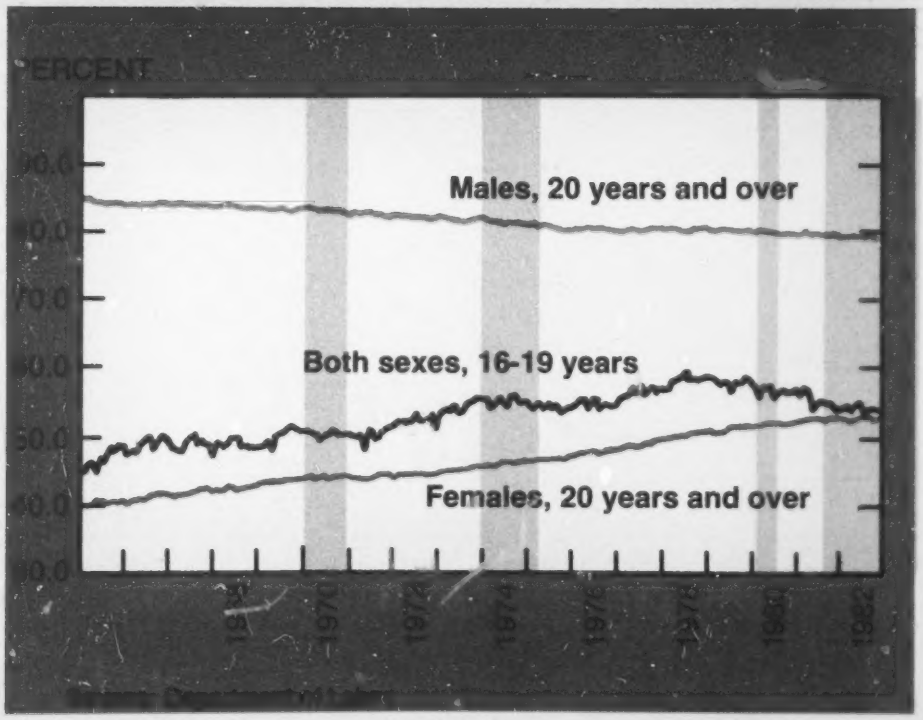
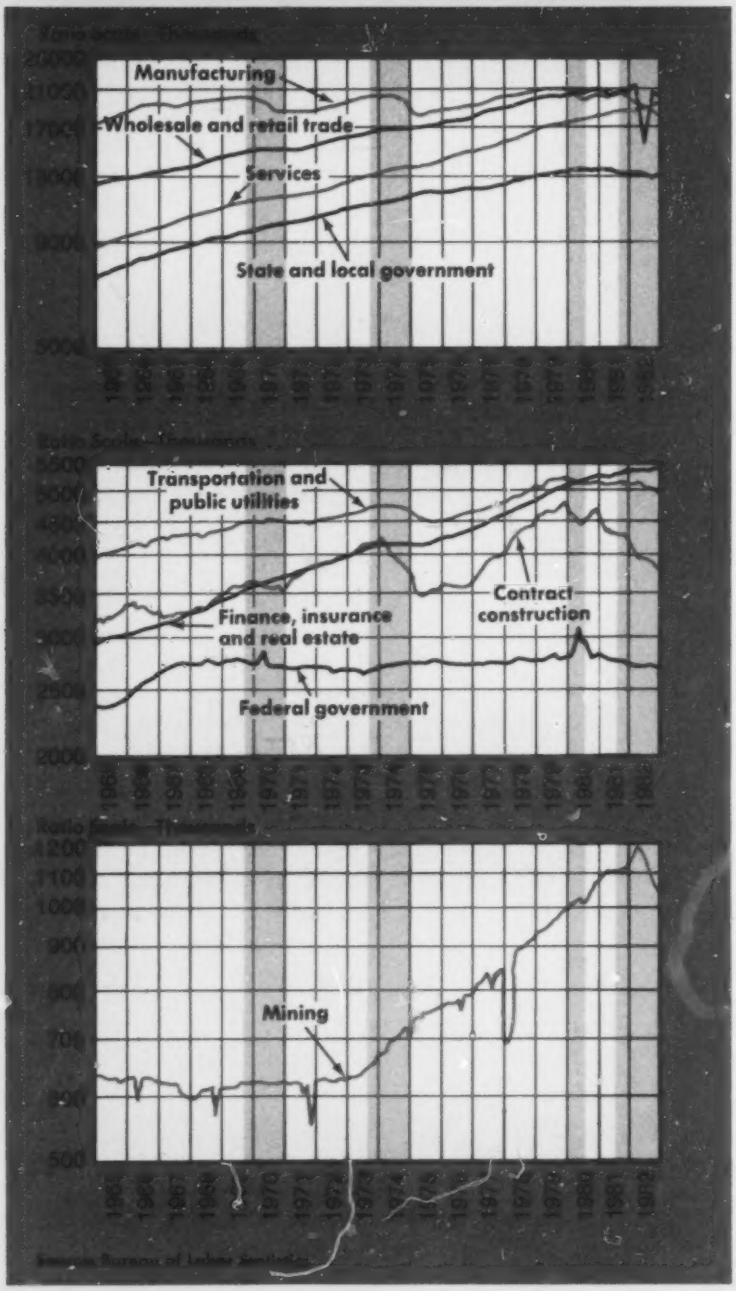


CHART 7

NONAGRICULTURAL PAYROLL EMPLOYMENT BY INDUSTRY 1965-1982



The Labor Force in the Future

The projected expansion of 8.5 million in the labor force to 120.9 million between 1982 and 1990 will produce quite a different age distribution profile from that which has developed during the 1970's (Chart 10). The number of young 16 to 19 year olds in the labor force in 1990 will be approximately 0.2 million more than in 1982 and there will be approximately 2.8 million fewer persons aged 20 to 24, 11.0 million more aged 25 to 54, 0.3 million more aged 55 to 64, and about 0.2 million fewer 65 years of age and over. In terms of occupational groups, the faster growing employment opportunities will be for white-collar workers, especially in professional and technical areas.

TABLE 5

EMPLOYED PERSONS BY OCCUPATION GROUPS, SELECTED YEARS, 1977-1982

(In millions)

	1977	1978	1979	1980	1981	1982
White-collar workers	45.2	47.2	49.3	50.8	53.6	54.4
Professional and technical	13.7	14.2	15.0	15.6	17.0	17.5
Managers and administrators	9.7	10.1	10.5	10.9	11.2	11.6
Sales workers	5.7	6.0	6.2	6.2	6.8	6.9
Clerical workers	16.1	16.9	17.6	18.1	18.5	18.4
Blue-collar workers	30.2	31.5	32.1	30.8	30.0	28.3
Craft and kindred workers	11.9	12.4	12.9	12.5	12.4	11.8
Operatives	13.8	14.4	14.5	13.8	13.5	12.3
Nonfarm laborers	4.5	4.7	4.7	4.5	4.1	4.2
Service workers	12.4	12.8	12.8	12.9	13.6	13.7
Private household workers	1.2	1.2	1.1	1.0	1.2	1.1
Other	11.2	11.7	11.7	11.9	12.5	12.6
Farm workers	2.8	2.8	2.7	2.7	2.3	2.4
Total employed	90.5	94.4	96.9	97.3	99.6	98.8

Source: Bureau of Labor Statistics.
Note: Parts may not add to totals due to rounding.

CHART 8

UNEMPLOYMENT RATES BY AGE AND SEX
1960-1982
(Seasonally adjusted)

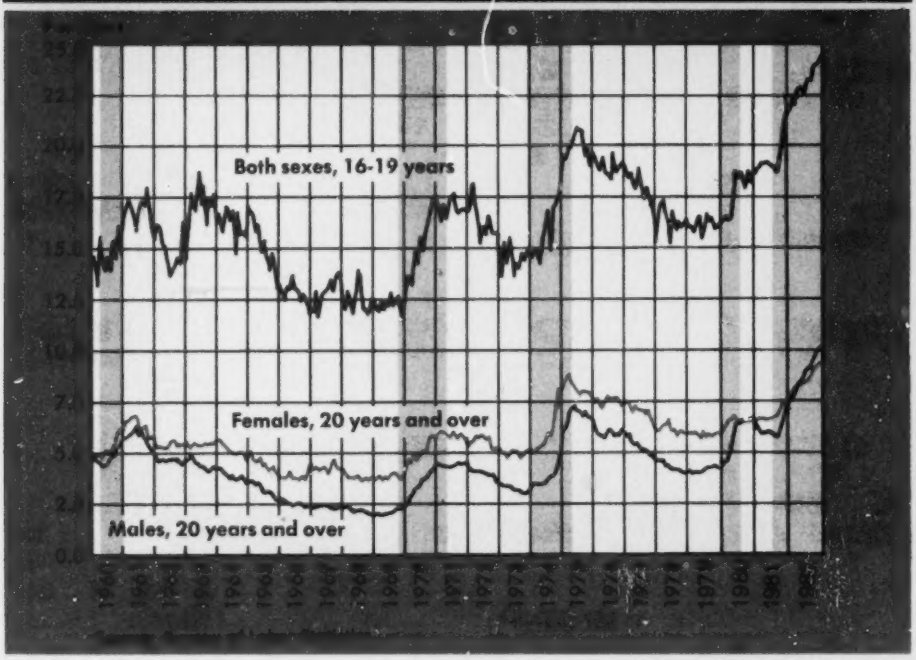


CHART 9

HELP-WANTED INDEX AND THE UNEMPLOYMENT RATE, 1974-1982

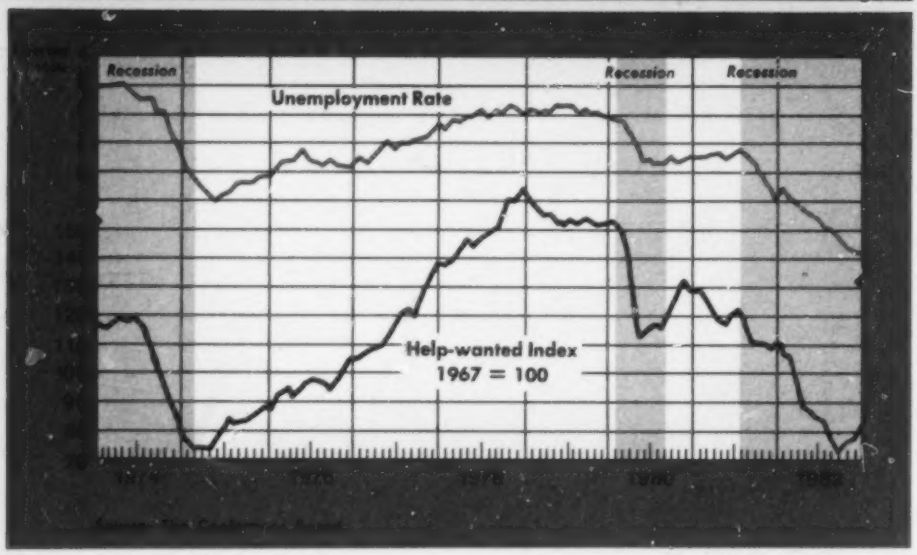
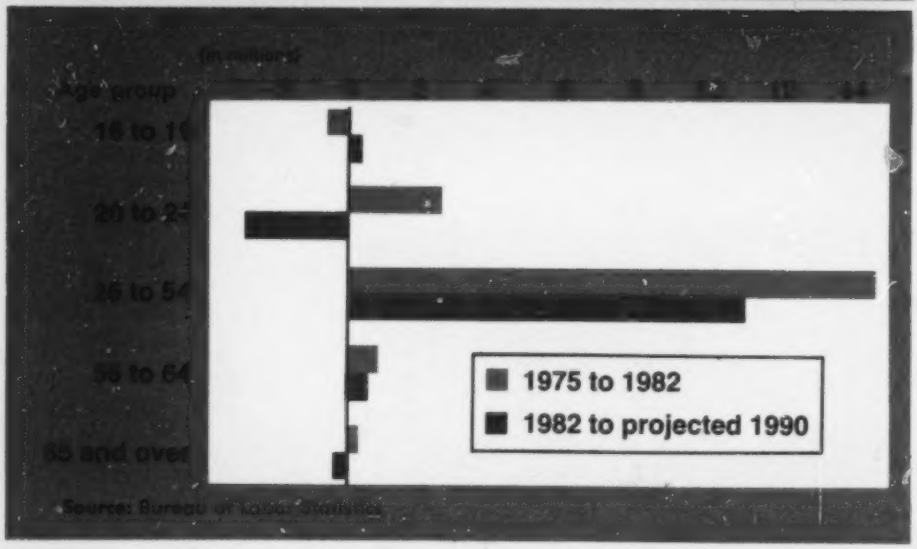


CHART 10

CHANGES IN THE LABOR FORCE BY AGE GROUPS



CHAPTER 3

CONSUMERS AND THEIR INCOME

The success of a modern economic system depends not only on the level of total output at any one time; it also depends on capital formation and on governmental action, both of which provide essential elements necessary for efficient production in the future. A major element of a successful economic system is a flow-of-income process with contributions to production by labor, capital, and government. The shares of income received by individuals for labor performed, capital invested, and as transfer payments (for which no service is currently rendered) from the components of personal income.

TABLE 6

SOURCE OF PERSONAL INCOME, SELECTED YEARS, 1975-1982

(In billions of dollars)

Year	Wages, Salaries and Related Income *	+	Proprietors Income	+	Income from Rent, Interest and Dividends	+	Income from Transfer Payments**	-	Personal Contributions for Social Insurance	=	Personal Income
1975 ...	870.9		90.0		176.1		178.3		50.4		1,265.0
1977 ...	1,072.6		103.9		217.2		207.9		61.1		1,540.4
1978 ...	1,208.8		118.5		251.3		223.8		69.8		1,732.7
1979 ...	1,352.5		132.1		297.4		250.3		81.1		1,951.2
1980 ...	1,483.3		116.3		352.2		297.2		88.7		2,160.4
1981 ...	1,634.3		124.7		425.4		336.3		104.9		2,415.8
1982 ...	1,714.4		120.4		472.9		374.7		111.7		2,570.6

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

* Related income, which is called "other labor income" by the Department of Commerce, includes compensation for injuries, employer contributions under private pension and related programs, and other items such as the pay of military reservists and directors' fees.

** Transfer payments include benefit payments made under government (Federal, State and local) social security, unemployment and veterans' programs, and miscellaneous payments by business.

Personal Income and its Sources

Personal income totaled $2,570.6 billion in 1982, up from $2,415.8 billion in 1981 for a gain of 6.4% (Table 6).

Among the principal components of personal income the greatest percentage rise in 1982 over 1981 was in personal interest income (up 13.0%), followed by income from transfer payments (up 11.4%). Increases in rental income of persons at 0.6% and nonfarm proprietors' income at 0.6% were well below the average increases in the other components of personal income. Farm proprietors' income was down 20.4%.

Transfer payments (income of persons, generally in monetary form, for which no services are rendered currently) have been increasing faster than the increase in

TABLE 7

DISPOSITION OF PERSONAL INCOME, SELECTED YEARS, 1975-1982

(In billions of dollars)

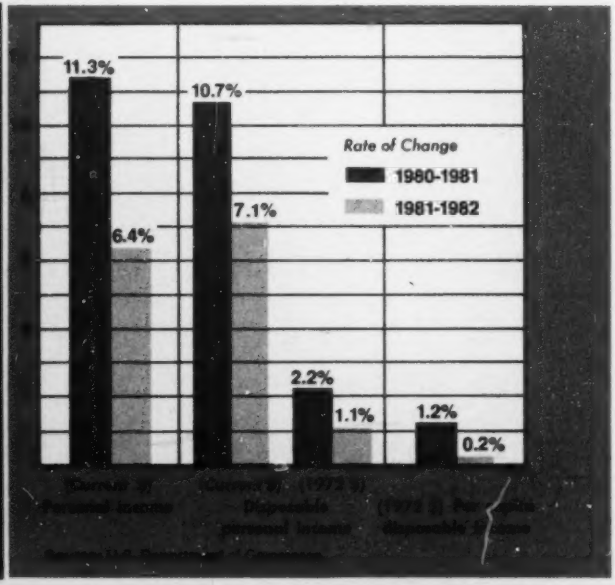
Year	Personal Income	-	Tax and Nontax Payments	=	Disposable Personal Income	-	Personal Outlays	=	Personal Saving
1975	1,265.0		168.9		1,096.1		1,001.8		94.3
1977	1,540.0		226.4		1,314.0		1,236.0		78.0
1978	1,732.7		258.7		1,474.0		1,384.6		89.4
1979	1,951.2		301.0		1,650.2		1,553.5		96.7
1980	2,160.4		336.3		1,824.1		1,717.9		106.2
1981	2,415.8		386.7		2,029.1		1,898.9		130.2
1982	2,570.6		397.2		2,173.4		2,030.7		142.7

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

CHART 11

RATES OF CHANGE IN DISPOSABLE AND PER CAPITA PERSONAL INCOME 1980-1981 1981-1982



income received by current producers. Liberalized social security, veterans', and government pension and welfare benefits accounted for most of these rises. In 1982, a rise in unemployment benefits paid added to the increase. The increases have also been accentuated as the automatic social security and government pension benefit rises have been tied to increases in the consumer price index. Income from transfers amounted to 11.0% of aggregate personal income in 1972, 13.9% in 1981, and 14.6% in 1982.

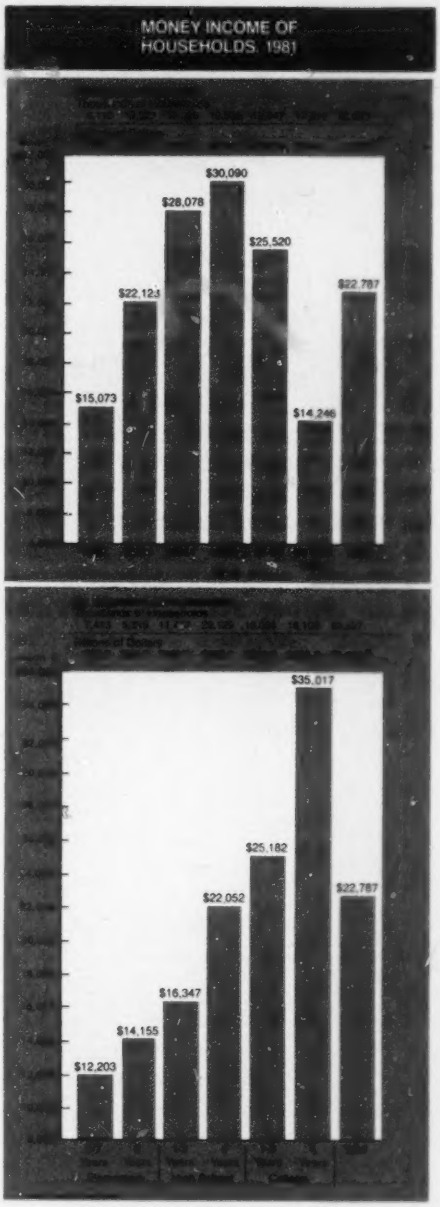
Disposable Income

Personal tax and non-tax payments for the year 1982 at $397.2 billion were up 2.7% from 1981. At $2,173.4 billion, disposable personal income was up 7.1% from 1981 (Table 7). Personal outlays for consumption at $2,030.7 billion were up 6.9% leaving personal saving at $142.7 billion for an increase of 9.6% from 1981.

Real Income

Real income in 1982 was 0.4% higher than in 1981 when total personal income is adjusted by the 6.0% rise in consumer prices as measured by the consumer price index for all urban wage earners and clerical workers. However, this estimated price rise may overstate the actual price rise because of the component weights given various items such as housing. A more reliable estimate of the effect of price increases on income is found in the deflators used by the Department of Commerce as shown in Chart 11. While total personal income in 1982 rose 6.4% and income after taxes rose 7.1% in current dollars, if these are adjusted for price changes by the personal consumption expenditures deflator and measured in prices of 1972, the rise in disposable personal income in 1982 was only 1.1%. Overall disposable income in 1982 was affected by an overall 5.9% rise in prices above 1981 (as reflected by change in the P.C.E. deflator). When account is also taken of population changes, real per capita disposable income at $4,544 (in 1972 dollars) in 1982 was 0.2% more than the $4,535 in 1981, in contrast to the 1.2% decrease during 1981.

CHART 12



Household and Families

The Census Bureau defines a household as "all of the persons who occupy a

house, an apartment, or other group of rooms, or a room which constitutes a housing unit," whereas a family is defined as "a group of two or more persons related by blood, marriage, or adoption and residing together." Thus a family is essentially a sociological unit, whereas a household is an economic unit. It is the economic unit which is the primary unit of consumption for many goods and services, especially housing, household operations, consumer durables, and frequently for food.

Household Income

Median money income for households in the United States was $19,074 in 1981, the latest year for which data are available from the Census Bureau. Mean income in 1981 was $22,787.

As shown in Chart 12, household income tends to rise until the householder (head of household) reaches late middle age and to decline thereafter. By age of householder, the mean income in 1981 (that is the total income for the group di-

TABLE 8

SELECTED CHARACTERISTICS OF HOUSEHOLDS—1981

	Thousands of Households	Mean Household Income	Aggregate Income (In billions of dollars)
All Households	83,527	$22,787	1,903.3
Type of Household			
Male Householder	61,073	$23,399	1,429.0
Female Householder	22,454	$12,728	285.8
Number in Household			
One	19,354	$12,308	238.2
Two	26,486	$22,875	605.9
Three	14,617	$26,539	387.9
Four	12,868	$29,031	373.6
Five or more	10,202	$29,170	297.6
Type of Residence			
Nonfarm	81,708	$22,875	1,869.1
Farm	1,819	$18,842	34.3
Inside metropolitan area	56,900	$24,355	1,385.8
Outside metropolitan area	26,627	$19,435	517.5
Owner occupied	56,317	$26,122	1,471.1
Renter occupied including no cash rent	27,210	$15,883	432.2
Region			
Northeast	18,000	$23,190	417.4
North Central	21,254	$22,809	484.8
South	27,925	$21,603	603.3
West	16,348	$24,337	397.9

Source: Bureau of the Census

Note: Parts may not add to totals due to rounding.

* Numbers as of March 1982.

vided by the number in the group) was $15,073 for households in which the head was under 25 years of age, $30,090 for households headed by a person between 45 and 54 years of age, and only $14,246 for households for which the householder was 65 years of age or over.

Education of the householder is also closely related to household income. The largest single educational group is that in which the householder has completed high school but gone no further in school. In 1981, this group comprised 48.6% of all households; mean income was 18.7% below the overall household average. At one extreme, where the householder has completed 4 or more years of college, 19.3% of the households had mean income 53.7% above that for all households. At the other extreme, where the householder had completed less than 8 years of school, 8.9% of the households had mean income 46.4% below that for all households.

Other characteristics of households that reveal varying levels of household income are the number of persons in the household, type of residence (farm or nonfarm, inside or outside metropolitan area, owner or renter occupied), and region of the country (Table 8).

Family Income

The median income in current dollars of all families in the United States was $22,388 in 1981 and the mean was $25,838 (Table 9). Median income in 1981 was 6.5% above 1980.

The average annual increase in median real income (1980 dollars) of families since 1970 has been 0.04% which is much less than the average annual increase experienced between 1960 and 1970 (3.4%). The slower growth during the 1970's was in part related to slower overall economic growth and the severe recession from No-

TABLE 9

DISTRIBUTION OF FAMILIES AND UNRELATED INDIVIDUALS BY TOTAL MONEY INCOME IN 1981

	Families		Unrelated Individuals	
	Thousands	Percent	Thousands	Percent
Total Money Income				
Under $5,000	3,549	5.8%	7,573	27.3%
$5,000 to $9,999	7,003	11.5%	7,247	26.1%
$10,000 to $14,999	8,264	13.5%	4,950	17.9%
$15,000 to $19,999	7,661	12.6%	3,157	11.4%
$20,000 to $24,999	7,667	12.6%	2,021	7.3%
$25,000 to $29,999	6,808	11.2%	1,282	4.6%
$30,000 to $34,999	5,536	9.1%	581	2.1%
$35,000 and over	14,532	23.9%	903	3.3%
Total	61,019	100.0%	27,714	100.0%
Memorandum				
Median Income	$22,388	--	$9,189	--
Mean Income	$25,838	--	$11,987	--

Source: Bureau of the Census.

Note: Parts may not add to totals due to rounding.

vember 1973 to March 1975. Median real family income increased 6.7% between 1970 and 1973, when it reached $22,346 (in 1980 dollars). Median real income declined by 6.0%, however, between 1973 and 1975 and the increase of 0.1% annually since 1975 resulted in a real median family income for 1980 which was equal to that of 1975.

In addition to the economic problems of recession and high-level inflation during the 1970's and early 1980's, there were also changes in family structure which affected income levels. From March 1970 to March 1981, there was a substantial increase in the proportion of families maintained by a female householder with no husband present (from 10% to 15%). There was also an increase, from 28% to 30%, in the proportion of families maintained by younger persons (under 35 years of age). These changes have exerted a downward influence on overall median income since families maintained by women and younger persons tend to have lower incomes.

CHAPTER 4

CONSUMERS—THEIR SPENDING AND CAPITAL FORMATION

Together with investment spending by producers and spending by governmental bodies and foreigners in the domestic economy, the spending decisions of consumers determine both the level and composition of American economic output. The broadest measure of output is gross national product (GNP), which measures expenditures in order to quantify the output, or product, of the economy.

TABLE 10

GROSS NATIONAL PRODUCT, BY SECTOR, SELECTED YEARS, 1975-1982

		Personal Consumption Expenditures						
Year	Total GNP	Durable Goods	Non-durable Goods	Services	Total	Government Purchases	Domestic Investment	Net Exports
	(Billions of current dollars)							
1975	1,549.2	132.2	407.3	437.0	976.4	339.9	206.1	26.8
1977	1,918.3	178.2	478.8	547.3	1,204.4	393.8	324.1	(-) 4.0
1978	2,163.9	200.2	528.2	618.0	1,346.5	431.9	386.6	(-) 1.1
1979	2,417.8	213.4	600.0	693.7	1,507.2	474.4	423.0	13.2
1980	2,633.1	214.3	670.4	782.5	1,667.2	538.4	402.3	25.2
1981	2,937.7	234.6	734.5	874.1	1,843.2	596.9	471.5	26.1
1982	3,057.6	242.5	762.0	966.8	1,971.3	647.3	420.5	18.5
	(Billions of constant 1972 dollars)							
1975	1,233.9	112.7	308.2	359.3	780.2	266.7	154.8	32.2
1977	1,369.7	138.0	333.4	393.0	864.3	269.2	214.2	22.0
1978	1,438.6	146.8	344.4	412.0	903.2	274.6	236.7	24.0
1979	1,479.4	147.2	353.1	427.3	927.6	278.3	236.3	37.2
1980	1,474.0	137.1	355.8	437.6	930.5	284.6	208.4	50.6
1981	1,502.5	140.0	362.4	445.2	947.6	287.1	225.8	42.0
1982	1,476.0	138.7	365.0	453.3	957.0	291.2	197.0	30.9

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

Gross National Product

The gross national product, defined as the value of goods and services produced, was $3,057.6 billion in 1982, up 4.1% from the previous year (Table 10). Of the total national product, personal consumption expenditures amounted to $1,971.3 billion (64.5%), government purchases $647.3 billion (21.2%), gross private domestic investment $420.5 billion (13.8%), and net exports $18.5 billion (0.6%).

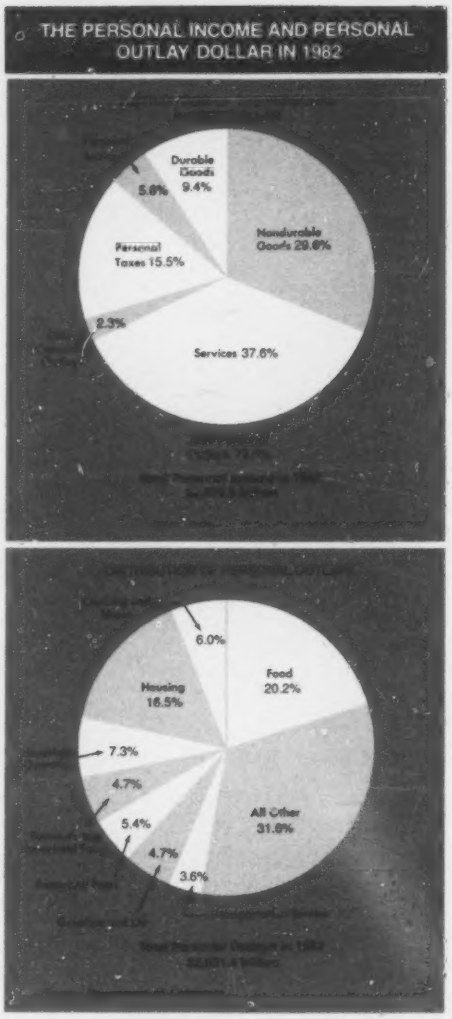
Personal Outlays

Personal outlays (defined by the Department of Commerce as including personal consumption expenditures, interest payments by individuals and transfers abroad by individuals) on average moved up nearly proportionately with disposable personal income during the 1960's. During recessions or pauses in business growth when durable goods spending was greatly reduced, consumer outlays dropped off as a percent of disposable income and during strong recovery periods personal outlays increased again. However, since 1970 personal outlays have shown less sensitivity to changes in the business cycle, largely because of changes in two sectors. The service segment of expenditures has shown a continuing growth throughout recessions, and the durable goods segment, which is cyclically sensitive, now has proportionately less weight in consumer expenditures. Personal outlays as a percentage of disposable personal income since 1970 have varied between 91.4% (1973, 1975) and 94.2% (1980). For 1981, the percentage was 93.6% and for 1982 93.4% (Chart 13).

Personal Consumption

In 1982, personal consumption expenditures at $1,971.3 billion in current dollars were 6.9% above 1981. Expenditures for durable goods were up 3.4% (automobiles and parts were up 7.7%). Expenditures for services continued to rise—by 10.6%—after having increased

CHART 13



11.7% from 1980 to 1981. Expenditures for nondurable goods in 1982 were up 3.7%.

Personal consumption expenditures in real terms in 1982 (1972 dollars) increased 1.0% from 1981. Real spending on non-durable goods and services also registered increases in 1982.

Retail sales of new motor vehicles at about 8.0 million vehicles in 1982 were down 6.3% from 1981. Sales of imports decreased slightly to 2.2 million down from 2.3 million in 1981 making their share of the new auto market 28%. Do-

mestic passenger car sales at 5.9 million units in 1982 were down from 6.2 million units in 1981.

Personal Saving

The personal saving rate (saving as a percent of disposable personal income) in the first half of the 1970's varied between 8.6% (1973) and 6.5% (1972), and in the last half between 8.6% (1975) and 5.8% (1980). The saving rate for 1981 was 8.4% and 6.6% for 1982.

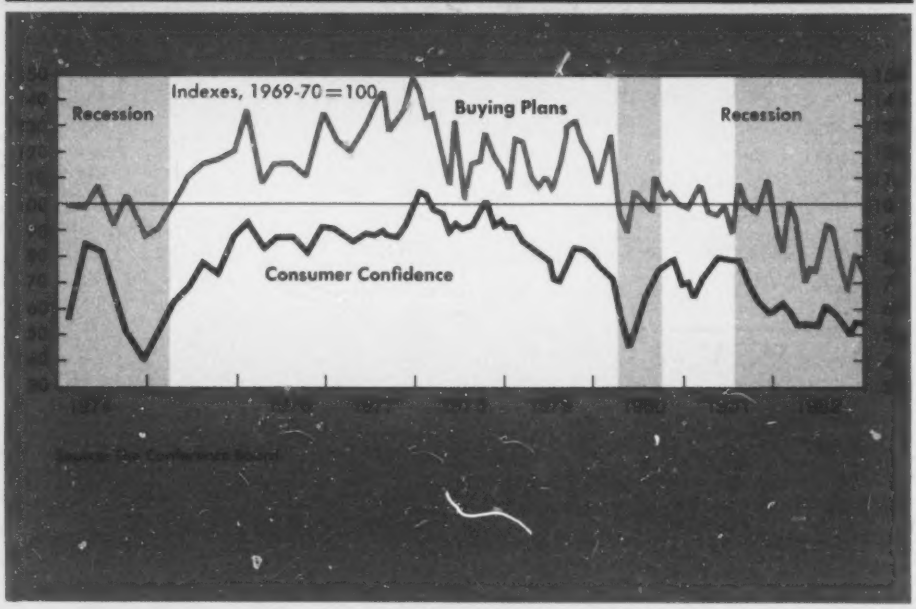
Measuring Consumer Behavior

Awareness of the complexities and significant economic role of personal income and consumers' spending and saving decisions has given rise to the development of indicators designed to measure more precisely various characteristics of the consumer sector. With the constant refinement of such indicators, there is a broader understanding of changing consumer attitudes toward goods, services, credit, financial security, and changing family needs and values.

The Conference Board, at monthly intervals, reports consumer attitudes and buying plans based on surveys conducted by National Family Opinion, Inc. The results of these surveys are summarized in two indexes—the Index of Buying Plans and the Index of Consumer Confidence. Both of these indexes appear to have declined prior to downturns in previous business cycles (Chart 14), and thus may be useful guides in predicting the future course of the economy. At 75.4 (1969 = 100) the Index of Buying Plans in December 1982 was below the average for the year and down significantly from 99.2 in December 1981. The generally low level of the Index of Consumer Confidence in 1982 suggests that consumers still remained pessimistic about the economy.

CHART 14

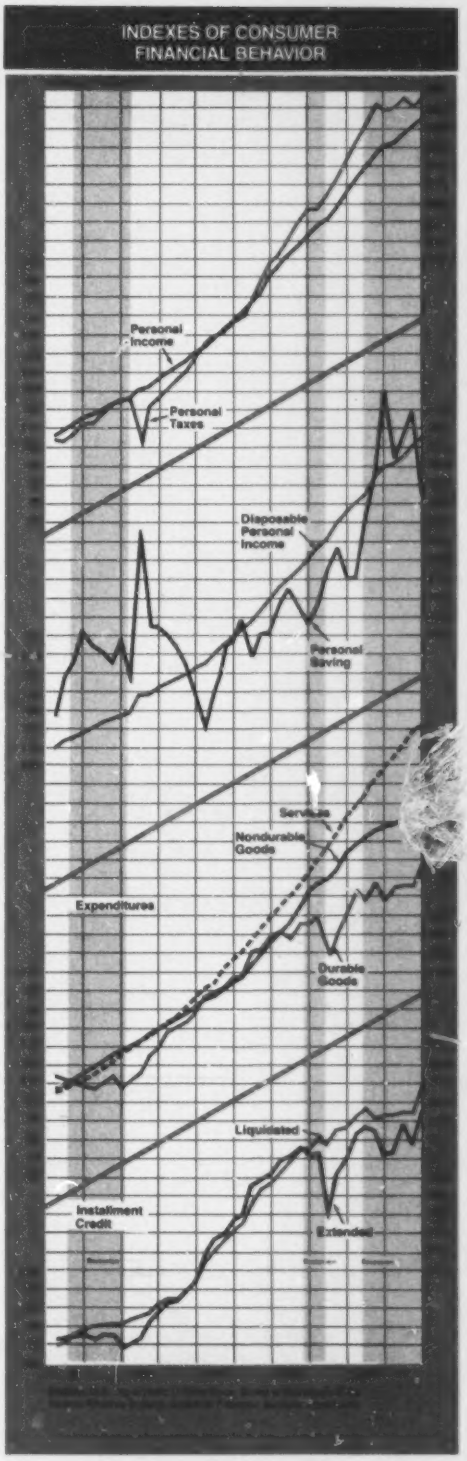
CONSUMER CONFIDENCE AND BUYING PLANS



Indexes of Consumer Financial Behavior, developed by the American Financial Services Association and referring to base year 1972 = 100, highlight recent trends in consumer income and its uses and thus assist in the task of projecting the effect of such trends in the overall economy (Chart 15).

The indexes reveal that personal taxes were at 283.5 at a seasonally adjusted rate in fourth quarter 1982, while personal income was at 275.7 and personal saving at 245.1. The indexes for consumer expenditures were: durables, 226.6; nondurables, 258.9; and services, 308.8. At 236.1 in the fourth quarter, the index for installment credit extended was below the installment credit liquidated index at 250.5.

CHART 15



Consumers as Capitalists

With the development of the U.S. economy, consumers have also become capitalists in the economic sense. In addition to their wider ownership of the means of production in the form of corporate stocks and bonds, they generally own the physical capital which provides the services necessary to satisfy many of their needs for living quarters, transportation, household services, and entertainment.

The most detailed data available on home ownership are for 1980, when 65% of all households owned the housing unit in which they lived. The rate of ownership varied from about 49% for households with incomes under $10,000 to 86% for those with incomes of $25,000 and over. Among husband-wife households, 79% were homeowners. About 36% of these households with a head under 25 years of age owned their home. The ownership rate for the husband-wife 25 to 44 year age group was 75% and for the 45 and above groups was 87%.

Capital Formation

Capital formation (in physical terms) may be defined as the property and goods that promote the production of other goods and services added during a time period to the existing stock of such prop-

erty and goods. In this sense, owner-occupied houses and consumer durables purchased by consumers during a year are similar in nature to investment by businesses. Net capital formation in 1982 was approximately $102.7 billion (Table 11). Net capital formation by business approximated $52.5 billion and by consumers $50.2 billion—$11.7 billion for housing and $38.5 billion for durables.

In order to purchase capital items (homes, automobiles, television sets, refrigerators and other consumer durables) which require a high initial outlay, consumers often borrow or finance them and pay for them over time as they use the services of the item bought. Thus, just as a corporation sells debentures to finance goods-producing machines and the local school district floats a bond issue to build

TABLE 11

CAPITAL FORMATION, 1978-1982

(In billions of dollars)

	1978	1979	1980	1981	1982
Gross Capital Formation	586.8	636.4	616.6	706.1	663.0
Business (Gross domestic investment minus household purchases of residences and condominiums)	299.5	331.9	326.8	394.8	358.1
Consumer	287.3	304.5	289.8	311.3	304.9
Housing (Household purchases of residence and condominiums)	87.1	91.1	75.5	76.7	62.4
Durables	200.2	213.4	214.3	234.6	242.5
Capital Consumption Allowances	366.0	417.0	475.1	526.5	560.3
Business (Capital consumption minus owned occupied homes)	189.0	217.0	249.1	281.8	305.6
Consumer	177.0	200.0	226.0	244.7	254.7
Housing	33.5	39.1	44.1	48.3	50.7
Durables	143.5	160.9	181.9	196.4	204.0
Net Capital Formation	220.8	219.4	141.5	179.6	102.7
Business	110.5	114.9	77.7	113.0	52.5
Consumer	110.3	104.5	63.8	66.6	50.2
Housing	53.6	52.0	31.4	28.4	11.7
Durables	56.7	52.5	32.4	38.2	38.5

Source: Federal Reserve Flow of Funds Accounts Series.
Note: Parts may not add to totals due to rounding.

a school, in a similar way consumers borrow on credit to finance the purchase of capital goods. When financing in this manner, the corporation commits part of its future earnings to repayment of the debentures, the school district commits part of its future tax receipts to repayment of the bond issue, and consumers commit part of their future income to payments on a mortgage (when financing a home) or to repayments of installment credit (when financing consumer durables). The financial markets provide the mechanism for collecting savings, which provide the funds for financing such investment.

CHAPTER 5

CONSUMERS AS FINANCERS

Consumers as a group, by their decisions to spend, save or invest, have become an important factor in determining the course and level of future business activity. With the increase and wider distribution of discretionary spending power, consumers, as well as business enterprises and governments, play significant roles in the economic functions of saving, investing and capital accumulation.

Financing Government

In 1982, individuals were taxed and made payments to social insurance funds as required by law at a rate of 22.0% of their earnings from current activity, (i.e. personal income minus transfer payments received plus payments to social insurance funds). In 1977, the percentage was 20.7% (Table 12). Taxes paid by individuals in 1982 of $397.2 billion, were up 2.7% from 1981, due to increased taxable incomes in nominal dollars. Payments by individuals to social insurance funds increased from $104.9 billion in 1981 to $111.7 billion in 1982—a 6.5% increase. These payments make up the tax and Social Security receipts of the Federal and State governments.

Saving and Investment

A useful tool for determining the part played in saving and investment by various segments of the economy is the Flow-of-Funds series published by the Federal Reserve Board. This series defines savings as the "excess of current receipts over current expenditures by each sector." By this definition, the gross saving by households in 1982 is preliminarily estimated at $486.2 billion, 5.5% above 1981 (Table 13). Net saving of all sectors combined was $223.4 billion in 1982, up 7.1% from 1981, as personal saving increased by $12.6 billion, credits from government insurance increased by $2.4 billion, net durables in consumption increased by $0.3 billion, and capital gains dividends decreased by $0.5 billion.

Investment is defined as the "sum of net purchases of tangible asssets (expenditures for both newly produced and previously existing tangible assets, less sales of tangible assets) and net acquisitions of financial assets less net increases in liabilities." By this definition, gross investment of households in 1982 is preliminarily estimated at $556.4 billion, of which $330.8 billion was capital expenditures for homes, durables, etc. (down 1.6% from 1981), and $225.6 billion was net financial investment, up 13.1%. Net acquisition of financial assets by households amounted to $313.3 billion in 1982 and net increase in liabilities $87.8 billion.

"Households," as recorded in the Flow-of-Funds series, includes households and nonprofit organizations serving individuals, such as foundations, private schools and hospitals, labor unions, and charitable, welfare and religious organizations.

Credit Market Debt Outstanding

It is a rare coincidence when the need for expensive items, especially capital goods, can be financed by cash savings held by the purchaser. This is true whether it is government, a business, or a household that requires the use of the item. Just as business uses commercial credit or issues bonds to finance the purchase of capital goods, so consumers finance the purchase of tangible assets—homes and consumer durable goods—through the use of home mortgages and various forms of consumer credit. As more consumers chose to buy and own more and more tangible assets, rather than pay others to supply the services which these assets provide over the years, the level of total consumer debt increased faster than other debt during the 1950's. During late 1960's and early 1970's the debt of private business generally rose much faster than that of consumers or of government. In 1982, consumer debt rose by 11.4% above that of 1981, with corre-

TABLE 12

FINANCING OF GOVERNMENT BY INDIVIDUALS SELECTED YEARS, 1977-1982

(In billions of dollars except as indicated by percent)

	1977	1978	1979	1980	1981	1982
Total Federal Government Receipts	375.2	431.6	493.6	540.7	628.2	614.7
Total State and Local Government Receipts*	230.2	250.3	271.5	297.2	329.1	353.7
Total All Government Receipts ..	605.4	681.9	765.1	837.9	957.3	968.4
Received from individuals:						
In billions of dollars	287.6	328.1	382.6	426.4	491.6	508.9
Percent of total	47.5%	48.1%	50.0%	50.9%	51.4%	52.6%
Total Tax and Nontax Receipts of All Governments	464.8	520.0	578.2	633.6	719.2	714.7
Received from individuals:						
In billions of dollars	226.5	258.5	302.0	338.5	386.7	397.2
Percent of total	48.7%	49.7%	52.2%	53.4%	53.8%	55.6%
Total Social Insurance Fund Receipts	140.6	161.9	186.9	204.3	238.1	253.7
Received from individuals:						
In billions of dollars	61.1	69.6	80.6	87.9	104.9	111.7
Percent of total	43.5%	43.0%	43.1%	43.0%	44.1%	44.0%
Income of Persons from Current Earnings (Personal Income Minus Transfer Payments Plus Payments to Social Insurance Funds)	1,393.6	1,578.7	1,782.3	1,951.9	2,184.4	2,307.6
Percent paid to government for:						
Taxes, etc.	16.3%	16.4%	16.9%	17.3%	17.7%	17.2%
Social insurance funds	4.4%	4.4%	4.5%	4.5%	4.8%	4.8%

Source: Department of Commerce.

Note: Parts may not add to totals due to rounding.

* Less Federal grants-in-aid.

sponding increases of 8.7% and 17.5% for business and government debt respectively (Table 14).

At the end of 1982, consumer debt comprised 28.1% of total public and private debt outstanding.

Consumer Balance Sheet

The total assets of consumers are estimated at $10,834.2 billion as of December 31, 1982. At the same time, consumers had liabilities of $1,633.4 billion, leaving them a net worth of $9,200.8 billion (Chart 16 and Table 15).

Financial assets were estimated at $7,079.7 billion. Tangible assets included $2,064.9 billion in the value of owner-occupied housing, about $599.8 billion in land on which such housing was located, and $1,089.8 billion was the value of durable goods for a total of $3,754.5 billion.

Current liabilities stood at $537.5 billion and fixed liabilities of mortgage debt at $1,095.9 billion to bring total liabilities to $1,633.4 billion.

Assets and debt position of the American consumer at the end of 1982 showed 15.2:1 asset to debt ratio of all assets and debt excluding those involving home-ownership where the ratio was 2.4:1 (Table 16). The ratio of all assets to all debts was 6.6:1. Owners equity stood at 84.9% of consumers' total assets at year-end 1982.

TABLE 13

SAVING AND INVESTMENT BY HOUSEHOLDS, SELECTED YEARS, 1976-1982

(In billions of dollars)

	1976	1977	1978	1979	1980	1981	1982
Gross saving	286.4	312.8	357.2	380.9	408.9	461.0	486.2
Net saving	140.6	150.8	174.7	174.5	175.7	208.6	223.4
Personal saving	82.5	78.0	89.4	96.7	106.2	130.2	142.8
Credit from government insurance	17.7	22.5	27.9	24.4	35.3	37.5	39.9
Capital gains dividends	0.5	0.6	0.7	0.9	1.8	2.7	2.2
Net durables in consumption	40.0	49.6	56.7	52.5	32.4	38.2	38.5
Capital consumption	145.9	162.0	182.5	206.4	233.1	252.5	262.8
Gross investment	311.1	329.5	382.9	414.3	483.6	535.5	556.4
Capital expenditures (homes, durables, etc.)	223.2	265.0	304.3	327.7	315.3	336.0	330.8
Net financial investment	87.9	64.5	78.6	86.6	168.2	199.5	225.6
Net acquisition of financial assets	183.9	205.2	251.8	265.0	297.6	324.5	313.3
Net increase in liabilities	- 96.0	-140.6	-173.2	-178.3	-129.4	-125.0	- 87.8
Discrepancy(saving - investment)	-24.6	-16.7	-25.7	-33.5	-74.7	-74.5	-70.2

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

TABLE 14

CREDIT MARKET DEBT OWED BY SECTOR, AND OTHER SELECTED CLAIMS SELECTED YEARS, 1977-1982*

(In billions of dollars)

CREDIT MARKET DEBT OWED BY	1977	1978	1979	1980	1981	1982[P]
Public	980.4	1,099.2	1,215.0	1,373.6	1,538.9	1,808.0
U.S. Government and Agencies	572.5	626.2	663.6	742.8	830.1	991.4
U.S. Government Sponsored Credit Agencies and Mortgage Pools	145.0	181.7	230.3	273.9	319.0	379.6
State and local	262.9	291.3	321.1	356.9	389.8	437.0
Private financial and non-financial	1,375.2	1,571.3	1,779.7	1,962.9	2,191.1	2,382.6
Corporate and foreign bonds	400.7	432.5	466.7	507.9	536.3	567.7
Mortgages	374.7	413.7	456.2	493.6	530.2	617.0
Other debt	599.8	725.1	856.8	961.4	1,124.6	1,197.9
Consumer	937.0	1,097.8	1,265.0	1,366.7	1,470.4	1,637.7
Home mortgages	647 9	759.9	881.6	978.5	1,056.9	1,209.8
Consumer credit	289.1	337.9	383.4	388.2	413.5	427.9
Total	3,292.6	3,768.3	4,259.7	4,703.2	5,200.4	5,828.3
OTHER SELECTED CLAIMS						
Security Credit	43.4	44.9	43.5	56.9	65.2	na
Trade Credit	271.5	327.0	387.8	428.0	453.3	na
Investment Company Shares	45.5	46.1	51.8	63.7	64.0	na
Other Corporate Equities	950.5	982.5	1,179.5	1,572.1	1,504.5	na

Source: Federal Reserve Board Flow of Funds Series.

Note: Parts may not add to totals due to rounding.

* Data are as of the end of calendar year.

P Preliminary AFSA estimate.

TABLE 15

THE CONSUMER BALANCE SHEET, SELECTED YEARS, 1978-1982

(End of period in billions of dollars)

	1978	1979	1980	1981	1982
ASSETS					
Financial Assets - Subtotal	4,687.8	5,369.5	6,238.5	6,591.7	7,079.7
Demand Deposits and Currency	228.8	250.9	261.8	287.6	313.5
Time and Savings Accounts	1,086.3	1,163.6	1,289.0	1,354.8	1,466.1
Money Market Fund Shares	10.8	45.2	74.4	181.9	206.6
Life Insurance and Pension Fund Reserves	729.6	809.7	949.6	1,026.6	1,168.6
Government Securities	284.4	347.4	387.7	444.9	506.2
Corporate and Foreign Bonds	72.8	83.1	90.0	81.3	72.7
Corporate Stock at Market Value .	749.9	914.3	1,225.6	1,165.5	1,310.8
Equity in Noncorporate Business .	1,386.2	1,583.6	1,772.1	1,835.9	1,793.6
Other Financial Assets (net)	139.0	171.7	188.3	213.2	241.6
Tangible Assets - Subtotal	2,780.7	3,170.8	3,468.5	3,746.6	3,754.5
Owner-occupied Housing	1,546.0	1,729.0	1,904.4	2,078.8	2,064.9
Land*	443.7	496.1	585.8	615.1	599.8
Consumer Durable Goods	791.0	882.7	978.3	1,052.7	1,089.8
TOTAL ASSETS (Liabilities+Net Worth)	7,468.5	8,477.3	9,707.0	10,338.3	10,834.2
LIABILITIES - Total	1,143.8	1,319.4	1,437.8	1,555.9	1,633.4
Home Mortgages	746.5	869.4	967.9	1,049.0	1,095.9
Consumer Credit	337.9	383.3	388.3	413.6	428.0
Bank Loans, Insurance Loans, etc.	59.4	66.7	81.6	93.3	109.5
NET WORTH (of Households)	6,324.7	7,157.9	8,269.2	8,782.4	9,200.8

Source: Federal Reserve Board.

Note: Parts may not add to totals due to rounding.

* The estimated value of land of the "owner-occupied housing."

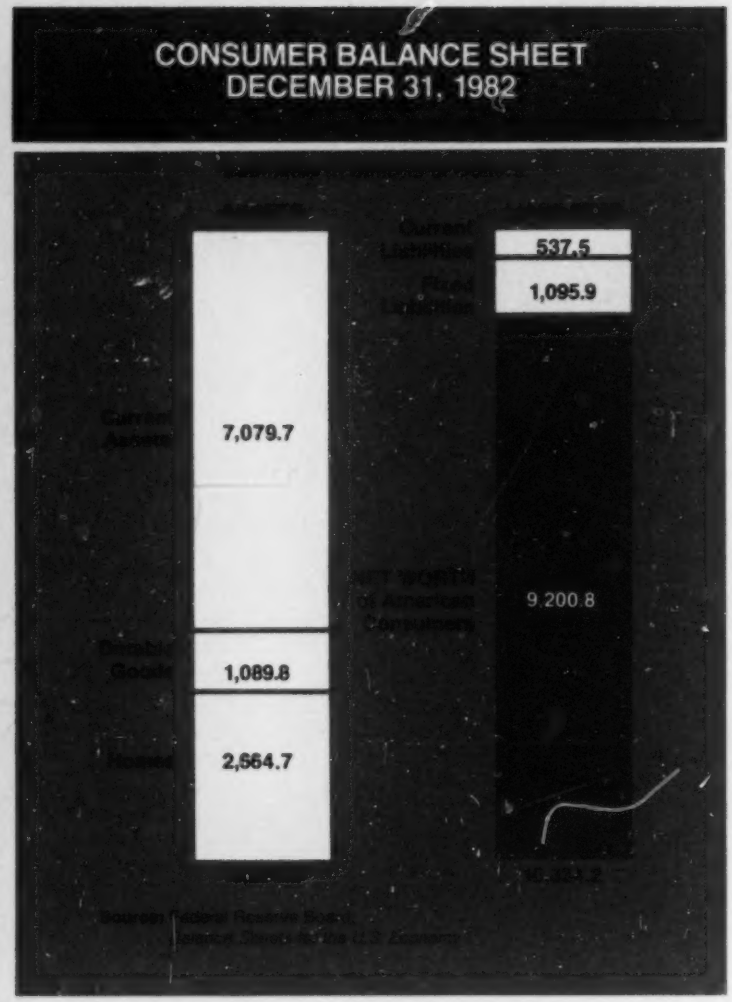
TABLE 16

CONSUMER'S ASSET TO DEBT RATIOS, END OF PERIOD, SELECTED YEARS, 1978-1982

	1978	1979	1980	1981	1982
Ratio of:					
Assets to debts excluding home ownership	13.8:1	13.9:1	15.4:1	15.1:1	15.2:1
Home ownership to mortgage debt	2.7:1	2.6:1	2.6:1	2.6:1	2.4:1
All assets to all debts	6.5:1	6.4:1	6.8:1	6.6:1	6.6:1
Percent of owners' equity in all assets	84.7%	84.4%	85.2%	85.0%	84.9%

Source: Table 15.

CHART 16


CONSUMER BALANCE SHEET
DECEMBER 31, 1982
537.5
1,095.9
7,079.7
9,200.8
1,089.8
2,664.7

CHAPTER 6

CONSUMER CREDIT

Approximately 72% of household indebtedness is in the form of home mortgages (Chart 17). About 22% is in the form of installment consumer credit, defined by the Federal Reserve as "most short- and intermediate-term credit extended to individuals through regular business channels, usually to finance the purchase of consumer goods and services or to refinance debts incurred for such purposes, and scheduled to be repaid (or with the option of repaying) in two or more installments." About 6% of consumer debt is noninstallment consumer credit, that is, 30 day charge credit held by retailers, travel and entertainment companies and single-payment loans at commercial banks for consumer purposes.

Noninstallment Credit

The major categories of noninstallment consumer credit, which is generally of a convenience nature, are single payment loans generally negotiated at a commercial bank, retailers' charge accounts with balances paid in 30 days or less, and service credit which represents debts payable to hospitals, physicians, dentists, etc. At the end of 1982 noninstallment credit amounted to $85.9 billion, up from $80.7 billion at end of 1981.

Consumer Installment Credit

At year-end 1982, consumer installment credit totaled $344.8 billion, up $13.1 billion from 1981. During the 1970's, the increases varied between $4.8 billion in 1970 and $43.0 billion in 1978. The increase in 1981 was $18.2 billion (Table 17).

Of the $344.8 billion in consumer installment credit outstanding at the end of 1982, 44.1% was held by commercial banks, 27.3% by finance companies, 13.7% by credit unions, 8.8% by retailers, 4.0% by savings and loan associations, 1.2% by gasoline companies, and 0.9% by mutual savings banks.

By type of credit, $130.2 billion, or 37.8% of installment credit outstanding at end of 1982 was for the purchase of automobiles (Table 18). Generally the automobile serves as security for installment contracts which are written by dealers and sold to banks or finance companies, or as security for auto loans made directly to consumers by banks and credit unions. Predominant in financing these purchases were the commercial banks, with $58.9 billion outstanding of which $35.2 billion was purchased paper and $23.7 billion direct loans for the purchase of automobiles. Finance companies held $48.8 billion, most of which consisted of contracts purchased by the subsidiaries of manufacturers—that is by General Motors Acceptance Corporation (GMAC), Ford Motor Credit and Chrysler Financial Corporation. Credit unions held $22.6 billion in loans made for the purchase of automobiles.

Revolving credit outstanding amounted to $67.2 billion at the end of

1982 (20.1% of the total). Commercial banks held $36.7 billion, retailers $26.4 billion and gasoline companies $4.1 billion.

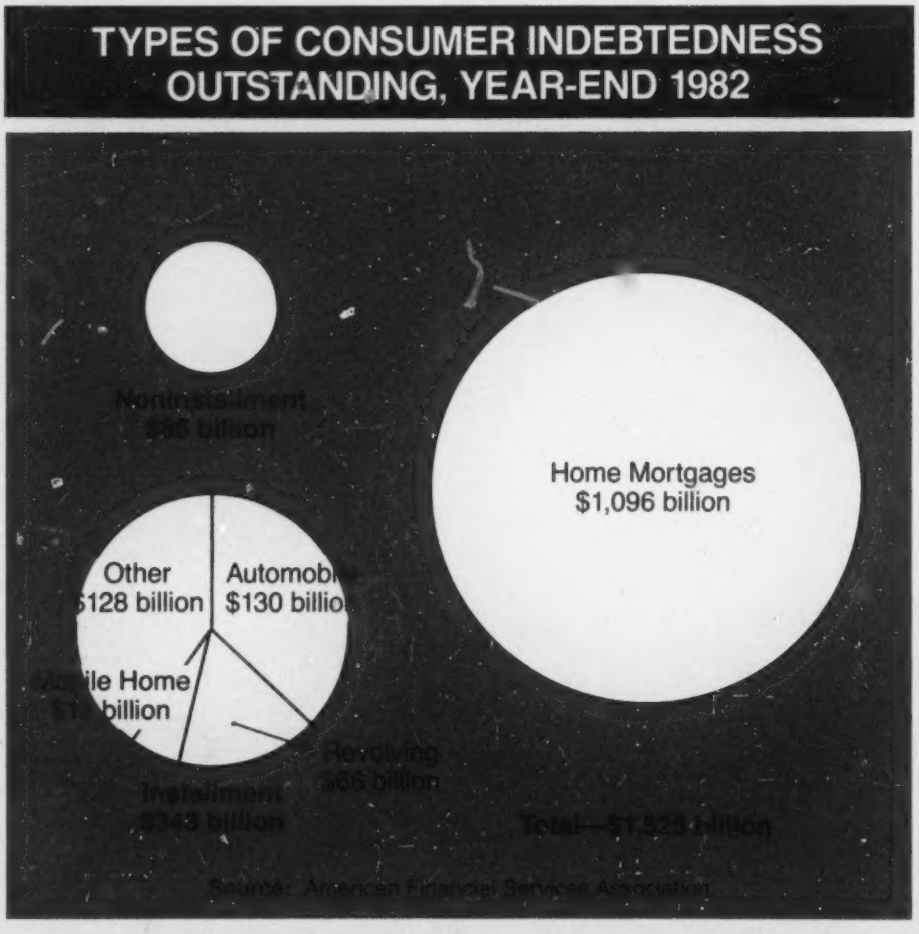
Mobile home financing totaled $19.0 billion at year-end 1982 (5.5% of the total). Commercial banks held $9.7 billion, finance companies $5.0 billion, and other institutions $4.3 billion.

All other consumer installment financing of $128.4 billion comprised 37.2% of the total outstanding at the end of 1982. Commercial banks held $46.8 billion, finance companies $40.6 billion, and credit unions $24.2 billion. Retailers (including the wholly-owned finance subsidiaries of chain stores) held $3.8 billion, savings and loan associations $10.1 billion, and mutual savings banks $3.0 billion. This "other" category includes installment contract financing of household goods such as appliances and furniture, as well as all personal loans. Table 19 shows in detail these outstandings at year-end 1982 as well as the extensions and liquidations during 1982 and outstandings at year-end 1981.

Credit Extensions

The total volume of consumer installment credit extended in 1982 was $334.9 billion, an increase of $8.6 billion.

CHART 17



Through 1976, the dollar net change in personal outlays generally exceeded the annualized net change in consumer installment credit outstanding (both quarterly data, seasonally adjusted at annual rates). As the economy moved from recession in early 1975, the gap between net change in personal outlays and annualized net change in installment credit narrowed. As the recovery moved on, the relationship was reversed and the annualized net change in installment credit in several quarters exceeded the change in personal outlays. However, in the third

TABLE 17

CONSUMER INSTALLMENT CREDIT OUTSTANDING, EXTENSIONS, LIQUIDATIONS, AND NET CHANGE, BY HOLDER, SELECTED YEARS, 1977-1982

(In billions of dollars)

	1977	1978	1979	1980	1981	1982
Outstanding at Year End - Total	230.6	273.6	312.0	313.5	331.7	344.8
Commercial Banks	112.4	136.0	154.2	147.0	147.6	152.1
Finance Companies	44.9	54.3	68.3	76.8	89.8	94.3
Credit Unions	37.6	44.3	46.5	44.0	46.0	47.3
Retailers	23.5	26.0	28.1	28.4	29.6	30.2
Savings and Loans	7.1	7.1	8.4	9.9	11.6	13.9
Gasoline Companies	3.0	3.2	3.7	4.5	4.4	4.1
Mutual Savings Banks	2.2	2.7	2.7	2.8	2.8	3.0
Extensions During Year - Total	257.6	297.7	324.8	306.1	334.5	344.9
Commercial Banks	117.9	142.4	154.7	135.0	144.3	158.9
Finance Companies	42.0	50.5	61.5	60.8	66.3	61.7
Credit Unions	34.0	38.1	34.9	29.6	35.4	35.4
Retailers	42.2	44.6	47.7	49.9	53.4	54.1
Savings and Loans	5.0	3.7	5.9	6.6	8.1	9.6
Gasoline Companies	14.6	16.0	18.0	22.2	24.9	23.0
Mutual Savings Banks	1.9	2.3	2.0	1.9	1.9	2.2
Liquidations During Year - Total	222.1	254.6	286.4	304.6	316.3	313.8
Commercial Banks	99.3	118.8	136.6	142.1	143.7	154.5
Finance Companies	36.0	41.1	47.5	52.4	53.3	57.2
Credit Unions	27.6	31.4	32.7	32.1	33.5	34.1
Retailers	39.5	42.1	45.5	49.6	52.3	53.5
Savings and Loans	3.7	3.7	4.6	5.1	6.5	7.3
Gasoline Companies	14.5	15.8	17.5	21.5	25.0	23.3
Mutual Savings Banks	1.6	1.8	2.0	1.8	2.0	2.0
Net Change During Year - Total	35.5	43.1	38.4	1.5	18.2	13.1
Commercial Banks	18.6	23.6	18.2	(-)7.1	0.6	4.4
Finance Companies	5.9	9.4	14.0	8.4	13.0	4.5
Credit Unions	6.4	6.7	2.2	(-)2.5	1.9	1.3
Retailers	2.7	2.5	2.1	0.3	1.1	0.6
Savings and Loans	1.3	---	1.3	1.5	1.6	2.3
Gasoline Companies	0.1	0.3	0.5	0.7	(-)0.1	(-)0.3
Mutual Savings Banks	0.3	0.5	---	0.1	(-)0.1	0.2

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

TABLE 18

CONSUMER INSTALLMENT CREDIT OUTSTANDING AT YEAR-END AND NET CHANGE DURING YEAR, BY TYPE, BY HOLDER SELECTED YEARS, 1977-1982

(In billions of dollars)

	1977	1978	1979	1980	1981	1982
Outstanding at Year End - Total	230.6	273.6	312.0	313.5	331.7	344.8
Automobile	82.9	101.6	116.4	116.8	125.3	130.2
Commercial Banks	49.6	60.5	67.4	61.5	58.1	58.9
Credit Unions	18.1	21.2	22.2	21.1	22.0	22.6
Finance Companies	15.2	19.9	26.8	34.2	45.3	48.8
Revolving	39.3	48.3	56.9	58.4	62.8	67.2
Commercial Banks	18.4	24.3	29.9	29.8	32.9	36.7
Retailers	17.9	20.7	23.3	24.1	25.5	26.4
Gasoline Companies	3.0	3.2	3.7	4.5	4.4	4.1
Mobile Home	14.9	15.2	16.8	17.3	18.4	19.0
Commercial Banks	9.1	9.5	10.6	10.4	10.2	9.7
Finance Companies	3.1	3.2	3.4	3.7	4.5	5.0
Savings and Loans	2.3	2.1	2.3	2.7	3.2	3.8
Credit Unions	0.4	0.5	0.5	0.5	0.5	0.5
Other	93.4	108.5	121.9	121.0	125.2	128.4
Commercial Banks	35.3	41.6	46.3	45.3	46.5	46.8
Finance Companies	26.6	31.2	38.2	38.8	40.0	40.6
Credit Unions	19.1	22.7	23.8	22.5	23.5	24.2
Retailers	5.6	5.2	4.8	4.3	4.0	3.8
Savings and Loans	4.7	5.0	6.1	7.2	8.4	10.1
Mutual Savings Banks	2.2	2.7	2.7	2.8	2.8	3.0
Net Change During Year - Total	35.5	43.1	38.4	1.5	18.2	13.1
Automobile	15.2	18.7	14.7	0.5	8.5	4.9
Commercial Banks	10.0	10.9	6.9	(-)5.8	(-)3.5	0.7
Credit Unions	2.9	3.1	1.0	(-)1.2	0.9	0.6
Finance Companies	2.4	4.7	6.8	7.5	11.0	3.5
Revolving	6.2	9.0	8.6	1.4	4.4	4.4
Commercial Banks	4.0	6.0	5.5	(-)0.1	3.1	3.8
Retailers	2.1	2.8	2.6	0.8	1.4	0.9
Gasoline Companies	0.1	0.3	0.5	0.7	(-)0.1	(-)0.3
Mobile Home	0.4	0.4	1.6	0.5	1.0	0.6
Commercial Banks	0.4	0.4	1.1	(-)0.3	(-)0.2	(-)0.5
Finance Companies	(-)0.2	0.1	0.2	0.4	0.7	0.5
Savings and Loans	0.1	(-)0.3	0.2	0.4	0.5	0.6
Credit Unions	0.1	0.1	---	---	---	---
Other	13.6	15.0	13.4	(-)0.9	4.2	3.2
Commercial Banks	4.3	6.3	4.7	(-)1.0	1.1	0.4
Finance Companies	3.7	4.7	7.0	0.6	1.3	0.5
Credit Unions	3.5	3.6	1.1	(-)1.3	1.0	0.7
Retailers	0.6	(-)0.3	(-)0.4	(-)0.4	(-)0.3	(-)0.2
Savings and Loans	1.2	0.3	1.1	1.1	1.2	1.7
Mutual Savings Banks	0.3	0.5	---	0.1	(-)0.1	0.3

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

quarter of 1979 the change in installment credit extensions fell below the change in personal outlays where it has remained through year-end 1982 (Chart 18).

Liquidations

The Federal Reserve reported that consumers liquidated $331.8 billion of consumer installment credit in 1982, of which $91.1 billion was for autos, $145.7 billion in revolving credit, $5.4 billion for mobile homes, and $89.6 billion in all other types of credit.

Debt liquidations in 1982 were equivalent to 15.3% of disposable personal income. Commonly used as a measure of the ability and willingness of consumers to incur more debt, this repayment ratio has varied since 1970 between a low of

TABLE 19

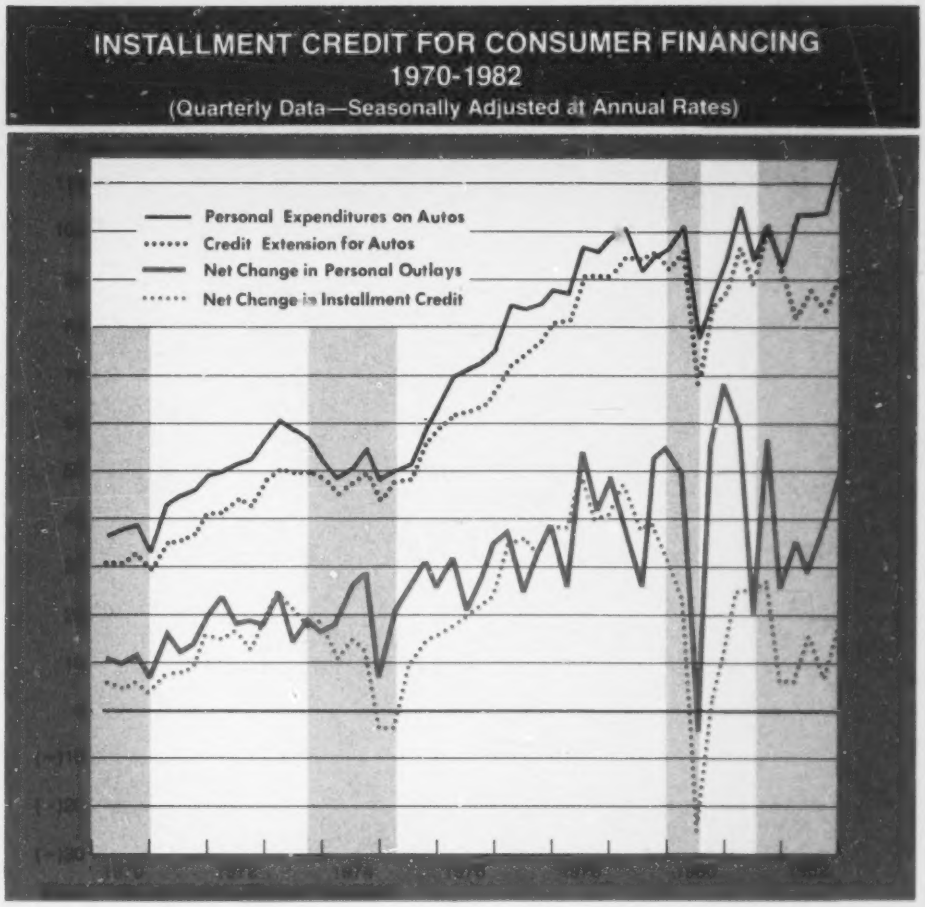
CONSUMER INSTALLMENT CREDIT, BY TYPE AND HOLDER, 1982

(In millions of dollars)

	Outstanding Year-end 1981	Extensions 1982	Liquidations 1982	Outstanding Year-end 1982
Total Installment Credit	331,697	344,904	331,800	344,798
Commercial Banks	147,622	158,904	154,464	152,069
Finance Companies	89,818	61,668	57,156	94,322
Credit Unions	45,954	35,436	34,140	47,253
Retailers	29,551	54,144	53,496	30,202
Savings and Loans	11,598	9,576	7,284	13,891
Gasoline Companies	4,403	22,968	23,304	4,063
Mutual Savings Banks	2,751	2,208	1,956	2,998
Automobile	125,331	96,000	91,104	130,227
Commercial Banks	58,081	45,264	44,496	58,851
Credit Unions	21,975	18,348	17,724	22,596
Finance Companies	45,275	32,388	28,884	48,780
Revolving	62,819	150,072	145,692	67,184
Commercial Banks	32,880	78,156	74,340	36,688
Retailers	25,536	48,948	48,048	26,433
Gasoline Companies	4,403	22,968	23,304	4,063
Mobile Homes	18,373	6,060	5,448	18,988
Commercial Banks	10,187	2,820	3,324	9,684
Finance Companies	4,494	1,380	912	4,965
Savings and Loans	3,203	1,692	1,056	3,836
Credit Unions	489	168	156	503
Other	125,174	92,784	89,568	128,399
Commercial Banks	46,474	32,664	32,292	46,846
Finance Companies	40,049	27,900	27,372	40,577
Credit Unions	23,490	16,932	16,272	24,154
Retailers	4,015	5,196	5,448	3,769
Savings and Loans	8,395	7,884	6,228	10,055
Mutual Savings Banks	2,751	2,208	1,956	2,998

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

CHART 18


INSTALLMENT CREDIT FOR CONSUMER FINANCING
1970-1982
(Quarterly Data—Seasonally Adjusted at Annual Rates)
Personal Expenditures on Autos
Credit Extension for Autos
Net Change in Personal Outlays
Net Change in Installment Credit

15.1% in the first quarter of 1982 to a high of 17.8% in the third quarter of 1978 (Chart 19). In the fourth quarter of 1982, this percentage was 15.4%.

Debt liquidations as a percent of the previous year-end outstandings reflect many factors including changes in maturities of contracts, changes in balances on revolving credit, and inflation. Though not a precise measure, when the ratio is low, the following year tends to have a relatively small change in outstandings. Conversely, when the ratio is high, the following year generally shows a relatively large change in outstandings. During the 1970's this ratio varied between 105% (in 1974 and 1975) and 121% in 1971. At 96% in 1982, it decreased 5% over 1981's ratio of 101%.

Rates of Charge

Annual interest rates charged by finance companies on purchased retail automobile paper in November 1982 averaged 12.82% for new cars (down from 16.55% in November 1981) and 20.68% for used cars (up from 20.48% in November 1981). Though no comparable figures are available for commercial banks, their rates on purchased paper were probably about the same as those of finance companies. The most frequent rate charged on direct loans by banks to consumers to finance new automobiles over a 36 month period in November 1982 was 15.97%.

The average rate charged by finance companies on mobile home contracts during November 1982 was 17.89% (down

from 19.22% in November 1981), and the most common rate for mobile homes by banks in November 1982 was 17.55%, down from 18.29% in November 1981.

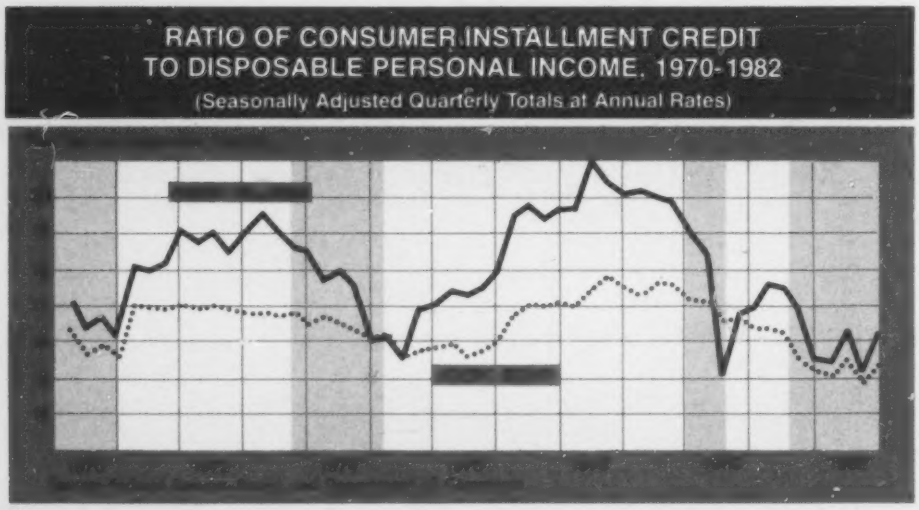
Average rates for personal cash loans made for a variety of consumer purposes including consolidation of existing debts are not available in detail. During November 1982, however, the most common effective rate charged by commercial banks on 24 month installment loans was 17.99%, down from 19.21% in November 1981. Major finance companies were charging an overall average of 23.34% (22.94% in November 1981) for loans of various sizes and maturities (excluding second mortgage loans) with an average of $2,474 as the amount financed. Rates charged by credit unions of their members for consumer financing in 1982 are not generally available. Federal credit unions were allowed by regulation to charge a maximum of 21% as of December 3, 1980.

Major finance companies were charging an average of 21.80% on non-auto installment credit contracts purchased in November 1982, down from 22.95% in November 1981. It is probable that rates charged by retailers, including the wholly-owned finance subsidiaries of chain stores, were about the same where permitted by law. Most of the financing by retailers was, however, in the form of revolving credit at rates probably approximating the rate on bank credit cards which averaged 18.75% in November 1982, up from 18.04% in November 1981.

Survey of Consumer Finances

Annual studies by the Survey Research Center of The University of Michigan provided detailed information on the characteristics of borrowers until the surveys were discontinued in 1971. In 1976, the Board of Governors of the Federal Reserve System authorized a detailed survey of consumers' views on credit. The interview questionnaire for this survey probed two significant aspects of consumer credit. First, it explored use by consumers of different types of credit, updating the *Surveys of Consumer Finances* undertaken by the Survey Research Center until 1971. Second, it measured consumers' awareness, understanding, attitudes and behavior regarding credit and its regulation, a largely unresearched area. Authored by Thomas A. Durkin and Gregory E. Elliehausen and published by the Federal Reserve Board as the *1977 Consumer Credit Survey*, the report examines lines of direct and indirect ques-

CHART 19


RATIO OF CONSUMER INSTALLMENT CREDIT
TO DISPOSABLE PERSONAL INCOME, 1970-1982
(Seasonally Adjusted Quarterly Totals at Annual Rates)

tioning used to gather information about the variables, as well as the responses obtained. Chapters 2 and 10 examine the responses to questions on consumer credit protection legislation. Chapters 11 to 21 review consumers' income, assets, debts and housing; they also update many of the tables from the earlier *Surveys of Consumer Finances*. A new volume in this series is expected in late 1983 or early 1984 from the Federal Reserve Board.

Incidence of Consumer Credit Usage

The Federal Reserve Board survey conducted in 1977 revealed that 46.5% of all families owed no consumer installment debt. Over one-quarter of all families (26.7%) had installment debt payments (excluding home mortgages and credit cards) of less than 10% of family income; 15.6% had payments of 10-19% and 7.2% of 20% or more (Table 20).

The Federal Reserve Board study shows the level of commitment for debt repayment by age groups of the family head. For example, 42.1% of the families where the family head was under 25 had 10% or more of their disposable income committed to repayment of installment credit. This percentage dropped to 30% for the 25 to 34 year age group, 24.2% for the 35 to 44, 21.8% for the 45 to 54 years, and 17.6% for the 55 to 64 age groups. By contrast, 9.1% of those in the 65 to 74 year age group, and 2.4% of those 75 years of age and over had 10% or more of their disposable income in 1977 committed to repayment of installment credit.

TABLE 20

ANNUAL INSTALLMENT DEBT PAYMENTS AS A PERCENT OF PREVIOUS YEAR'S FAMILY INCOME*

		Annual Installment Debt Payments (Percent of family income)				
	No Debt	Less than 10 %	10 % to 19 %	20 % to 39 %	40 % and more	Not Ascertained
All Families	46.5	26.7	15.6	6.2	1.0	3.8
Age of Family Head (years)						
Under 25	34.9	16.4	25.2	13.5	3.4	6.3
25-34	31.1	36.0	21.4	7.6	1.0	3.1
35-44	32.4	37.8	16.9	6.0	1.3	5.5
45-54	42.0	30.7	14.6	6.4	0.8	5.2
55-64	55.6	24.0	11.9	5.1	0.6	2.8
65-74	82.2	7.0	6.6	1.7	0.8	1.7
75 and over	94.9	1.6	1.6	0.8	---	0.8
Family Income (dollars)						
Less than 3,000	79.7	4.5	1.3	3.8	5.1	5.6
3,000-4,999	69.2	7.1	7.6	9.2	4.3	2.7
5,000-7,499	59.0	13.1	13.5	10.8	1.4	2.3
7,500-9,999	44.3	21.0	20.1	8.2	1.4	5.1
10,000-14,999	41.9	22.2	23.8	8.7	0.4	2.9
15,000-19,999	34.2	34.8	22.8	4.7	---	3.5
20,000-24,999	31.7	42.4	16.4	4.6	---	5.0
25,000 and more	41.7	43.3	7.8	1.6	---	5.7

Source: Federal Reserve 1977 Consumer Credit Survey, Table 19-4.
Note: Parts may not add to totals due to rounding.
* Ratio of August or September 1977 payments to 1976 monthly income, excluding home mortgages and credit cards.

Repayments as a percent of disposable income vary also by income level of spending unit. For the low income levels (under $3,000 per year), 79.7% of households had no installment payments in mid-1977 and another 4.5% had payments of under 10% of disposable income. Among those having income of $25,000 and over, 41.7% had no installment payments and 43.3% had payments of less than 10% of disposable income. Families with incomes of $15,000 to $24,999 seem to have been the most likely to be credit users as shown by the fact that over 65% of these families owed some installment credit in 1977. Families committed to installment payments of 20% or more of income comprised the largest percentage in the $3,000-$7,499 groups. Each of these income groupings would, of course, be different today as a result of inflation since 1977.

In 1977, 59.8% of all families made use of credit cards, compared to 50% of all families in 1970 (Table 21). All age groups had increased their use of credit cards, except the families headed by a person under 25 years of age (down from 42.0% to 38.7%).

Statistics on the extent of the use of real property as security for personal expenditures are not generally available. Some information on the use of funds obtained, the sources of funds, and the size of second mortgage extensions is shown in Table 22.

Personal Bankruptcies

Personal bankruptcies are always a concern to credit grantors, members of the legal profession, legislators and social

TABLE 21

DISTRIBUTION OF FAMILIES REPORTING INSTALLMENT DEBT AND USE OF CREDIT CARDS, 1970 AND 1977

(Percent of families)

	With Installment Debt*		Using Credit Cards	
	1970	1977	1970	1977
All Families	49	53.5	50	59.8
Age of Family Head (years)				
Under 25	59	65.1	42	38.7
25-34	67	68.9	61	64.6
35-44	63	67.6	57	72.4
45-54	56	58.0	60	68.4
55-64	36	44.4	46	61.1
65-74	14	17.8	37	48.7
75 and over	6	5.1	20	33.5
Family Income (dollars)				
Less than 3,000	19	20.3	na	22.2
3,000-4,999	31	30.8	na	23.8
5,000-7,499	52	41.0	na	33.3
7,500-9,999	61	55.7	na	48.9
10,000-14,999	65	58.1	na	62.6
15,000-19,999	49**	65.8	na	72.8
20,000-24,999	na	68.3	na	82.1
25,000 and more	na	58.3	na	90.2

Source: Federal Reserve 1977 Consumer Credit Survey.

Note: Parts may not add to totals due to rounding.

* Excluding home mortgages and credit cards.
** $15,000 and more in 1970.

workers alike. The unprecedented rise in nonbusiness bankruptcies following the implementation of the new federal bankruptcy code on October 1, 1979 has given rise to even greater concern about the effect of bankruptcy on the consumer credit markets in the future.

According to the Bankruptcy Divisions, Administrative Office, U.S. Courts, 449,895 individuals commenced bankruptcy proceedings during 1982, an encouraging but tentative decrease of 0.6% from the figure of 452,660 reported in 1981. This decrease is regarded as tentative because levels each year since the 1979 changes have been drastically higher than those reported prior to enactment of the new law.

While a part of the increase reflected an increase in the number of individuals in financial distress, there is little doubt that other factors were also at work, including the newly acquired ability of the debtor to retain more assets than permitted under the previous law, and the increased opportunity to enter a "wage-earner" plan where in some cases he pays off only a nominal portion of his debt over several years. The bankruptcy law has been subject in the past to differing interpretations in different districts, and this situation has intensified with the new code. Thus, while the number of bankruptcies has at times in the past been used as a guide to the overuse of credit, recently it has become less reliable as such.

TABLE 22

LOANS SECURED BY REAL ESTATE OTHER THAN FIRST MORTGAGES—NONFARM HOMEOWNING FAMILIES, 1977

(In percent of number responding)

Uses of Funds Borrowed	100.0
Downpayment	10.3
Appliances, durable goods	2.8
Additions or repairs to house	30.8
Automobiles	7.5
Other debts or expenses (bills, taxes, medical, educations and other)	39.3
Not ascertained	9.3
Sources of Funds	100.0
Bank	30.4
Savings and loan/savings bank	9.8
Individual	12.8
Government agency	2.9
Other (mostly finance companies)	26.5
Dealer contractor	3.9
Credit union	4.9
Not ascertained	8.8
Size of Second Mortgage Extension	100.0
$1,000 and less	1.6
$1,001-$2,500	7.8
$2,501-$5,000	25.0
More than $5,000	56.2
Not ascertained	9.4
Memorandum	
Percent of all U.S. families owning homes	64.5%
Percent of all U.S. homeowners with first mortgages	61.7%
Percent of all U.S. homeowners with loans secured by other than first mortgages	5.8%

Source: Federal Reserve 1977 Consumer Credit Survey.

CHAPTER 7

THE CONSUMER FINANCE INDUSTRY

Definition

The consumer finance industry is defined to include those corporations, partnerships or proprietorships whose primary purpose is to finance the consumer. This financing is done through direct cash loans to consumers or through the purchase of installment sales paper from dealers or retailers when consumers buy automobiles or other goods and pay over time. During the last half of the 1970's and into the 1980's, personal loans secured by second mortgages became a major component of this financing. Open-end, or revolving credit, also expanded during this period, though to a limited extent.

The institutions specializing in this business are generally known as consumer finance companies, sales finance companies, industrial banks and industrial loan companies. At the end of 1982, these companies held $94.3 billion in installment credit outstanding, including $33.9 billion in personal loans, $48.8 billion in automobile financing, $5.0 billion in mobile home financing, and $6.7 billion in the financing of other consumer goods and home improvements. These consumer financial services are carried out in some 20,000 offices throughout the United States.

Many institutions are involved in credit financing for consumer purchases of goods and services. Commercial banks often provide consumer credit through two departments, one of which specializes in personal installment loans and another which is responsible for credit card operations. Most savings and loan associations and mutual savings banks offer some form of personal loan as an adjunct to their major role of financing homes, and credit unions have as one major function the granting of loans to members. Each of these institutions also has a collateral role—that of accepting time and/or savings deposits as the major source of funds available for lending purposes. In addition, retail outlets make credit available to their customers as a convenience, but consumer finance companies are the only institution whose primary role is to make installment credit available to consumers. Accordingly, retailers as a group, and most financial intermediaries (including commercial banks, savings and loan associations and credit unions), which have the dual functions of receiving funds from savers and lending to borrowers, are not included in the following discussion of the consumer finance industry. Finance company subsidiaries of bank holding companies, insurance holding companies, and other holding companies are included.

Industrial banking companies or Morris Plan companies (known also as "thrifts" or industrial loan companies) which operate in 22 states, are permitted to, and some do, accept customer savings deposits or issue thrift certificates. These institutions are, in a real sense, depository

financial institutions although they are grouped with finance companies in the finance industry because their charters are most frequently held by subsidiaries of finance companies. In many instances industrial banking companies have been operated solely as lending institutions. However, as the need for a deposit vehicle developed with the evolution of electronic fund transfers, and as consumer savings became a more attractive source of funds, more and more industrial banking companies have turned to the issuance of certificates or other acceptance of deposits.

Size and Ownership

Finance companies vary in size and ownership from one-office independently owned and operated companies to large chain companies which operate hundreds of offices across the country. Some medium-size and large companies are independently owned, others are subsidiaries of manufacturers, bank holding companies, insurance companies, or conglomerate firms. Alternatively, some companies in the industry have insurance and retail subsidiaries, some offer commercial financing, some have manufacturing subsidiaries, some have subsidiaries which operate in Canada and overseas.

Long-Term Trends

Until well into the 1960's, finance companies were generally highly specialized and could be distinguished as consumer finance companies, sales finance companies or commercial finance companies. However, by the late 1970's, most large and medium-size, and many small finance companies had become more diversified, both as to lending operations and sources of funds. During the 1970's, diversified giants from outside the industry recognized finance companies as well-managed profit centers and many were acquired by these conglomerates. Also, the passage of the Bank Holding Company Act amendments of 1970 provided the legal basis for bank holding companies to increase their acquisitions of finance companies.

Table 23 shows the trends in consumer financing and business financing by finance companies since 1977. At the end of

TABLE 23

RECEIVABLES OUTSTANDING AT FINANCE COMPANIES, BY TYPE, SELECTED YEARS, 1977-1982

(In billions of dollars)

	1977	1978	1979	1980	1981	1982
Receivables Outstanding Total	100.0	117.6	138.6	149.0	170.4	175.3
Consumer Credit - Total	44.9	54.3	68.3	76.8	89.8	94.3
Automobile	15.2	19.9	26.8	34.2	45.3	48.8
Mobile Home	3.1	3.2	3.4	3.7	4.5	5.0
Personal Loans	21.2	24.8	30.6	31.6	33.3	33.9
Other	5.3	6.4	7.6	7.2	6.7	6.7
Business Credit - Total	55.1	63.3	70.3	72.3	80.6	80.9
Automobile	24.0	27.3	29.1	24.6	24.5	24.6
Other than Automobile	31.1	36.1	41.3	47.7	56.1	56.3

Source: Federal Reserve Board
Note: Parts may not add to totals due to rounding.

1982, consumer receivables constituted 54% of the $175.3 billion in receivables, while business credit in the amount of $80.9 billion constituted 46%.

During the first half of the 1970's, the percentage of total consumer installment credit held by finance companies declined from 26.1% at the end of 1970 to less than 20% in the mid-1970's. This declining trend was reversed in 1978 and has continued upward since. At year-end 1982, finance companies held 27.5% of total consumer installment credit outstanding, up from 26.9% in 1981. This re-

TABLE 24

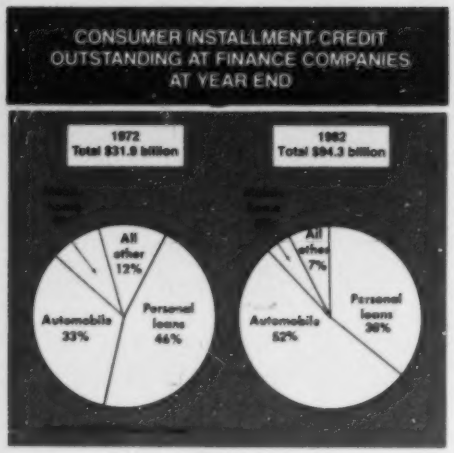
CONSUMER INSTALLMENT CREDIT AT FINANCE COMPANIES SELECTED YEARS, 1975-1982

(In millions of dollars)

	Total	Personal Loans	Automobile	Mobile Home	All Other
Outstanding (end of period)					
1975	35,995	17,267	11,214	3,445	4,069
1976	38,919	18,537	12,848	3,263	4,271
1977	44,868	21,239	15,235	3,077	5,317
1978	54,298	24,780	19,937	3,152	6,429
1979	68,318	30,594	26,751	3,390	7,583
1980	76,756	31,573	34,242	3,745	7,196
1981	89,818	33,300	45,275	4,494	6,749
1982	94,322	33,878	48,780	4,965	6,699
Extensions					
1975	31,183	17,008	9,642	767	3,766
1976	36,129	19,766	11,169	702	4,492
1977	41,989	22,595	12,662	643	6,089
1978	50,505	25,880	16,473	886	7,266
1979	61,518	29,892	22,950	797	7,879
1980	60,801	27,188	27,051	898	5,664
1981	66,344	26,151	33,527	1,313	5,353
1982	61,665	23,234	32,385	1,383	4,663
Liquidations					
1975	31,265	16,726	9,051	843	4,645
1976	33,183	18,496	9,535	884	4,268
1977	36,041	19,893	10,275	832	5,041
1978	41,075	22,339	11,771	812	6,153
1979	47,498	24,078	16,136	559	6,725
1980	52,363	26,209	19,560	543	6,051
1981	53,282	24,424	22,494	564	5,800
1982	57,161	22,656	28,880	912	4,713
Net Change					
1975	- 82	282	591	- 76	- 879
1976	2,946	1,270	1,634	- 182	224
1977	5,948	2,702	2,387	- 189	1,048
1978	9,430	3,541	4,702	74	1,112
1979	14,020	5,814	6,814	238	1,154
1980	8,438	979	7,491	355	- 387
1981	13,062	1,727	11,033	749	- 447
1982	4,504	578	3,505	471	- 50

Source: Federal Reserve Board and American Financial Services Association.
Note: Parts may not add to totals due to rounding.

CHART 20



versal reflects increased penetration in automobile credit markets and the entry of finance companies into new markets, especially large loans secured by real property, and to a lesser extent into open-end credit.

Types of Consumer Finance Business

At the end of 1982, the $94.3 billion in consumer installment credit held by finance companies consisted of $33.9 billion in personal loans (36%), $48.8 billion in retail automobile paper (52%), $5.0 billion in mobile homes (5%), and $6.7 billion in other forms of consumer installment credit (7%). (Table 24 and Chart 20). The vast majority of finance companies now offer a diversity of these consumer credit services.

Although most finance companies and industrial banking companies now in operation had their early beginnings in the direct cash loan field, many started in the retail sales financing business. Most have subsequently added the other services as a means of providing more complete service for existing customers or as a means of attracting new customers.

Financing of automobiles and other consumer durable goods, the specialty of the sales finance company, is frequently a marginal profit activity, nearly always requiring a large volume for success. Particularly in the financing of relatively small purchases, the total income from finance charges barely covers the cost of putting an account on the books, and is often inadequate to cover the cost of servicing over a period of months or years.

Revolving or open-end consumer credit business has been growing but is still not a major element for most finance companies, partially because of restrictive legislation. However, with the increasing use of electronic fund transfers, many companies are showing an interest in expanding this type of service.

Financing Automobiles and Other Goods

As automobile and other manufacturers expanded the operations of their finance company subsidiaries, and as retail chains established their own finance subsidiaries, the market for independent sales finance companies declined. In addition, during the 1970's, commercial banks and credit unions became increasingly aggressive in auto financing. Since 1979, however, alternative, higher earning markets for commercial bank lending, and shortages of funds faced by credit unions have once again lessened the participation of these institutions in auto financing. This shift back to finance companies is evident in Federal Reserve statistics, which show that finance companies' share of total automobile credit outstanding has risen from 29% in 1980 to 36% and 37% in 1981 and 1982 respectively. In absolute terms, $48.8 billion in automobile installment credit was outstanding at finance companies at the end of 1982, up from $45.3 billion at the end of 1981. Most of this amount was held by the subsidiaries of auto manufacturers, as most independent finance companies do a very limited amount of automobile financing and are in the direct cash loan field, or in many cases in commercial financing.

Financing the purchase of mobile homes is a part of the operation of some

finance companies, though a less substantial portion of their business than it was a few years ago. At the end of 1982 there were $5.0 billion of this type of receivable outstanding, up from $4.5 billion at the end of 1981.

The medium of a limited retail sales financing service has provided the consumer finance company with an opportunity to attract new customers to the use of direct loans. Traditionally the customer (buyer) entered into a contract with a dealer (seller) to buy a refrigerator, for example. The dealer, in turn, discounted the paper with a finance company by assigning it (endorsing the contract) to the finance company. The buyer would make his monthly payments directly to the finance company under the same terms and conditions as those of his contract with the seller. In such a transaction, the finance company gained a customer to whom it could then offer its direct loan services as the customer proved his credit-worthiness by the manner in which he made his payments on the refrigerator. The customer established a credit relationship with the finance company which he could then draw on at a time when he needed cash credit. With the expanded use of revolving credit in the 1970's, finance companies retained part of this sales finance service through the use of credit cards or private label financing. Including somewhat over $1 billion of this type, the financing of "other goods" amounted to $6.7 billion at the end of 1982, the same amount as at year-end 1981.

Personal Cash Loans

A large segment of finance company outstandings is in the form of personal loans, some secured by goods, real estate, or other collateral, others unsecured, including a small amount in open-end loans. Finance company outstandings of personal loans at the end of 1982 as reported by the Federal Reserve stood at $33.9 billion, up from $33.3 billion at the end of 1981.

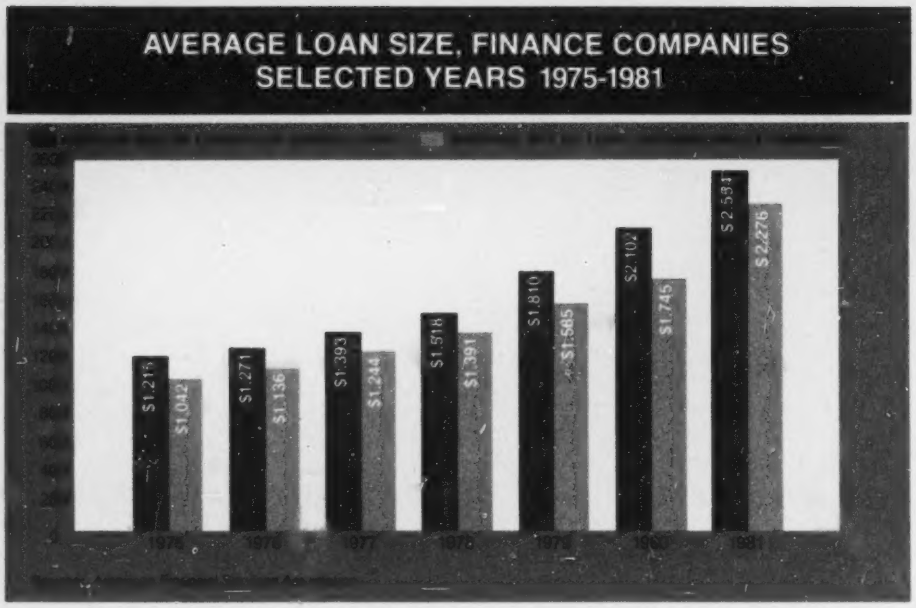
Size and Number of Loans and Contracts

Two factors generally control the size of loans made by finance companies. The "loan ceiling" sets an upper limit to the size of loan, and is determined by individual state legislation. The maximum loan size under small loan laws and industrial banking laws has been increased in recent years in a number of states. Several states also have general usury laws or specific second mortgage laws permitting rates of charge sufficient to offer finance companies an opportunity to make larger installment loans.

The second factor controlling the size of loans made stems from the interplay between the maximum authorized rates and the demand for loans of various sizes. Finance companies generally try to offer full loan service, that is, they try to serve customers who need small loans, as well as those who need amounts up to the maximum permitted by law. However, the yield on small loans is often considerably below the unit cost of operation, making it economically impossible for any institution to have a very large proportion of loans outstanding in the form of very small loans. Rising consumer prices, however, have reduced the consumer demand for these small loans, with the result that most finance companies are able to serve the needs of most of their customers.

According to surveys by the American Financial Services Association, the average size personal loan both second mortgage (secured by real estate), and non-second-mortgage made by AFSA-surveyed companies in 1981 was $2,554. As of year-end 1981, the personal loan accounts on the books of these finance companies indicated an average amount outstanding of $2,276 per account (Chart 21). (This excludes interest charges which may at times appear on the face of the note.) If unearned charges are included, the average size loan outstanding approximated $2,761 at year-end 1981, including both second mortgage and other personal loans.

CHART 21



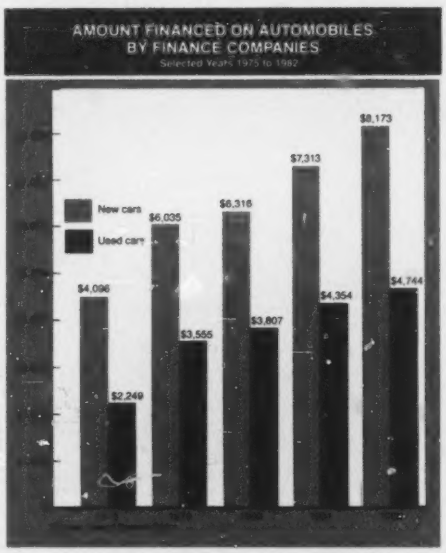
In response to the AFSA annual questionnaire, 53 companies provided sufficient detail to show 780,386 loans outstanding in the amount of $11.5 billion (including unearned charges) secured by second mortgages at year-end 1981 and 7,000,862 other personal loans in the amount of $10.0 billion (including unearned charges). This sample suggests that the average second mortgage loan outstanding at year-end 1981 was about $14,675 and the average for other personal loans was $1,433.

Automobile finance contracts are on average much larger than (non-second-mortgage) personal loans. Federal Reserve data reveal that the average amount financed on new automobiles (excluding precomputed charges) increased from $7,313 in 1981 to $8,173 in 1982 (Chart 22). For used cars, the amount financed by finance companies increased from $4,354 in 1981 to $4,744 in 1982.

Rates of Charge

Laws governing the maximum rates that consumer installment credit companies may charge are in effect determined by each state. Rates of charge permitted differ for new and used automobile financing, other goods financing, for cash loans, and for open-end credit. The rates

CHART 22



quoted in this section are annual percentage rates (APR), calculated in the manner prescribed by the Truth in Lending Law.

Rates of charge for cash loans generally vary from 36% annually on the smallest to 18% or less on larger well secured loans. Federal Reserve data reveal that finance companies charged an overall average rate of 23.1% on loans made in 1982 (Table 25).

In general, large ticket items such as automobiles, which have a resale value, are subject to financing at lower rates. Exact details are not available, but the rates for financing automobiles under normal conditions probably vary between about 14% to 30% APR for used autos, depending on the age and condition of the vehicle. According to Federal Reserve surveys, the average annual rate charged

TABLE 25

FINANCE RATES, MATURITIES, AND AVERAGE AMOUNT FINANCED BY FINANCE COMPANIES, SELECTED YEARS, 1977-1982

	1977	1978	1979	1980	1981	1982
Average Finance Rates*						
Personal loans	20.5%	20.5%	20.5%	21.1%	21.7%	23.1%
Automobiles						
New	13.1%	13.1%	13.5%	14.8%	15.9%	15.8%
Used	17.6%	17.6%	18.0%	19.1%	20.0%	20.8%
Mobile homes	13.6%	13.4%	13.6%	15.5%	18.1%	18.8%
Other consumer goods	19.2%	19.0%	19.1%	20.6%	21.6%	22.6%
Average Maturities*						
Personal loans in months	42.9	45.8	50.5	63.8	71.1	67.2
Automobiles - percent						
New - Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
% over 42 months	26.4	45.3	59.2	68.3	74.9	81.6
% 37 to 42 months	21.2	16.9	11.0	7.4	4.5	2.4
% 31 to 36 months	40.4	27.3	21.1	16.9	13.9	10.8
% 30 months or less	11.9	10.5	8.7	7.4	6.6	5.2
% balloon	--	--	--	--	--	--
Used - Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
% over 36 months	8.7	21.9	40.8	49.0	57.5	65.5
% 31 to 36 months	57.3	43.5	43.5	36.4	31.4	24.7
% 25 to 30 months	23.6	19.7	8.5	6.3	4.1	3.3
% 24 months or less	10.4	14.9	7.2	8.3	7.1	6.6
% balloon	--	--	--	--	--	--
Mobile homes	126.9	130.8	133.4	137.2	154.1	155.6
Other consumer goods	23.6	25.8	25.4	24.5	28.7	30.4
Average Amount Financed*						
Personal loans	$1,521	$1,572	$ 1,684	$ 1,975	$ 2,574	$ 2,683
Automobiles						
New	$4,990	$5,590	$ 6,035	$ 6,316	$ 7,313	$ 8,173
Used	$2,720	$3,168	$ 3,555	$ 3,807	$ 4,354	$ 4,744
Mobile homes	$9,174	$9,999	$11,617	$12,807	$14,625	$14,364
Other consumer goods	$ 563	$ 605	$ 600	$ 624	$ 833	$ 990

Source: Federal Reserve Board
Note: Parts may not add to totals due to rounding.

* Unweighted means of periodic sample data for each year. Average amount financed excludes precomputed finance charges.

by finance companies in 1982 for financing of new autos was 15.8% and for used autos 20.8%. Finance company rates for mobile homes averaged 18.8% in 1982. Financing of consumer goods other than autos and mobile homes, specifically items of less cost and not usually resaleable, cost an average of 22.6% per year at finance companies in 1982.

Types of Rate Quotation

Various types of rate quotation were permitted (or required) by states prior to the Truth in Lending Act. Illustrative were two types of rate quotation on small loans. Both types lumped all finance charges into a single rate, although additional charges were permitted (and regulated) in most states to cover the cost of insurance when the borrower desired such coverage. Both forms of quotation also permitted the borrower to repay his loan without penalty at any time before the contract matured.

The older form of rate quotation was the percent per month of the unpaid balance. Illinois' small loan law, for example, was of this type and permitted charges as follows: 2½% per month on the first $300 outstanding, 2% per month on the amount between $300 and $600 outstanding, and 1½% per month on the amount between $600 and $3,000 outstanding. Applying these rates, a $1,000 loan repaid in 12 equal monthly installments of $95.36 would cost the borrower $144.32 in interest, an effective 25.67% APR.

Many states also adopted a form of rate quotation for small loans similar to that frequently used by retail stores in quoting consumer installment credit. This form of quotation is referred to as add-on, meaning that a certain number of dollars is added to the amount of the contract to be repaid. Ohio's small loan law is an example of this type allowing $16 per $100 per year up to $750, $11 per $100 per year on the amount between $750 and $1,500, and $9 per $100 per year on the amount between $1,500 and $3,000. In this case, a loan of $1,000 repaid in 12 monthly installments of $95.62 each would cost the borrower $147.44 in interest or an effective 26.18% APR. For larger loans, the annual percentage rate is lower. For example, the finance charge for a loan of $4,000 in Colorado under the Uniform Consumer Credit Code is $433.04. The total of $4,433.04 is repayable in 12 monthly installments of $369.42 each, amounting to an annual percentage rate of 19.42%.

Terms of Finance Contracts

The maximum length of the loan or sales finance contract is limited by the applicable legislation or regulation in each state. Company policy, however, may restrict maturities to a shorter term than that permitted by law.

Federal Reserve data reveal that in November 1982 new auto contracts written by major finance companies had an average length of 46.4 months, up from 45.3 months in November 1981. For the year 1982, 10.8% of these were for 31 to 36 months and 5.2% were for 30 months or less. The contracts written in excess of 36 months, however,—84.0% in 1982—were up from 79.4% in 1981. Used car contracts in November 1982 had average maturities of 36.9 months, up from 35.7 months in November 1981. Of the used auto contracts in 1981, 90.2% were for over 30 months, 3.3% for 25 to 30 months, and 6.6% for 24 months or less.

Federal Reserve data indicate that the average maturity for cash loans made by large finance companies in 1982 approximated 61.7 months, up from 60.3 months in 1981. Mobile home loans averaged 154.5 months in 1982 and other goods finance contracts averaged 29.6 months.

Consumer Borrowers

Most of the information for this and the following sections on assets, liabilities and income was obtained from American Financial Services Association surveys for which the latest data available are for the year 1981.

Traditionally, the "character" of the borrower has been the significant factor considered by finance companies making loans, although increasing emphasis is being placed on real security in recent years. Except in the case of large loans, security in the form of tangible personal property frequently has little market value. To the borrower, however, it may have considerable subjective value and his willingness to use it as security establishes evidence of his good faith. Reports of State supervisory authorities show that consumer finance companies seldom take possession of security on small loans. The proportion of unsecured loans, that is, loans based on the borrower's signature, in 1978 was 22% and in 1981 (the latest year for which data are available) was about 25% (Table 26). Since these particular estimates are derived from the reports on consumer finance laws, the proportion of finance companies' loans secured by real estate are understated, because separate statistics are not generally available from the states on second mortgage lending.

Consumers often use the money borrowed from finance institutions and industrial banks to consolidate and refinance existing obligations (Table 27). It appears from the data that the rise in second mortgage lending tended to reduce the proportion of loans made for consolidation from 28% in 1977 to 21% in 1979. Consumers also borrow for various current purposes as well as to purchase automobiles and other durables. Still other consumers borrow so that they will not need to disturb equities in insurance, in the home, and in other assets. They borrow to pay for travel, vacation, and educational expenses. This latter category seems to have taken on greater significance between 1977 (8%) and 1979 (19%).

The average finance company borrower is a skilled or semi-skilled worker, has average income of over $20,000 a year, has acquired some material goods,

TABLE 26

PERCENT DISTRIBUTION OF NUMBER OF LOANS EXTENDED BY SECURITY SELECTED YEARS, 1974-1981*

	1974	1976	1978	1980	1981
Automobiles, household goods and other chattels	60.7	62.1	60.3	57.2	57.7
Unsecured notes	24.6	19.6	21.9	30.6	25.3
Endorsed and/or co-maker loans	2.0	4.4	1.5	2.7	3.2
Wage assignments	6.7	3.6	4.0	1.0	0.7
Real estate	1.4	3.1	4.2	4.0	4.4
Other considerations	4.6	7.2	8.1	4.5	8.7
Total	100.0	100.0	100.0	100.0	100.0

Source: American Financial Services Association.
Note: Parts may not add to totals due to rounding.

* Distribution calculated from a summation of available data from State supervisory reports of lending under small loan and other consumer finance laws. Most often second mortgage loans are made under separate sections of lending codes that do not require reporting of numbers of loans to state administrators; however, the majority of second mortgage loans are excluded from this table.

The total number of states included in this table are: twenty-eight in 1971, twenty-six in 1974, twenty-seven in 1976, twenty-one in 1978, nineteen in 1980, and twenty in 1981.

has at least some liquid assets at his disposal, is most frequently married, under 45 years of age and frequently owns his own home.

The distributions of second mortgage and non-second-mortgage personal loans made by finance companies in 1981, by income and by age are shown in Table 28. By income, the largest percentage of non-second-mortgage personal loan borrowers in 1981 was in the $9,001-$15,000 annual income bracket, where 38.4% of finance companies' non-second-mortgage personal loans were made. In addition, 26.6% of such loans were made to borrowers with income between $15,001 and $24,000 and 22.7% to those with over $24,000 in annual income. Just 12.3% of non-second-mortgage personal loans went to persons with less than $9,000 annual income. For second mortgage lending, the largest portion (45.8%) of loans were made to the over $24,000 income group.

By age, 37.5% of non-second-mortgage loans were made to persons in the 25-34 year age group, and 23.3% to those between 35 and 44. Combined, a total of 60.8% of non-second-mortgage personal loans were made to persons between the ages of 25 and 44. The distribution of second mortgage loans by age was even more concentrated, with 81.7% going to persons between 25 and 54 years of age, broken down as shown in Table 28. For purposes of comparison, the distributions of the total U.S. (household) population by income and by age are shown in Table 29.

Assets of Finance Companies

The American Financial Services Association, in its annual surveys of its members and other large nonmember companies, includes questions concerning their assets and liabilities. For 1981, data were obtained from 130 companies, both large and small, which operated 12,359 offices throughout the United States (Table 30). These companies had total assets of $115.2 billion at the end of 1981 including $111.9 billion in accounts and notes receivable of which $25.7 billion was outstanding in personal loans. Of the 130 company total, 114 were small consumer finance companies, defined as having receivables of less than $1 billion. These companies had assets of $5.7 billion including personal loans of $4.9 billion.

Sources of Funds of Consumer Finance Companies

Finance companies take on all of the common forms of business organization,

TABLE 27

DISTRIBUTION OF THE NUMBER OF LOANS EXTENDED BY PURPOSE
SELECTED YEARS, 1971-1979

	(In percent)				
	1971	1973	1975	1977	1979
Purpose					
To consolidate existing bills	46	33	31	28	21
Travel, vacation, education expenses	7	6	7	8	19
Automobile purchase or repair	10	14	14	13	13
Home furnishings and appliances	3	4	4	5	5
Household repairs	4	4	5	7	5
All other purposes	30	39	39	39	37
Total	100	100	100	100	100

Source: American Financial Services Association survey data for 1971 from companies which operated 4,389 offices, for 1973 from companies that operated 5,959 offices, for 1975 from companies that operated 4,863 offices, for 1977 from companies that operated 5,114 offices, and for 1979 from companies that operated 8,317 offices.

including the individual proprietorship, the partnership and the corporation, the latter of which predominates. Sources of funds have been generally the same as those of similar privately owned organizations in other fields of endeavor. Thus, finance companies have competed with all other lines of business in funds markets. Only in those states where industrial banking companies are chartered do finance company subsidiaries, as industrial banks, compete for consumer deposits.

Data on the liabilities, capital and surplus, and income, of finance companies are shown in Tables 31 and 32. Data for finance companies from the annual AFSA surveys show that the largest source of funds at consumer finance companies (those with at least 50% of receivables in personal loans), (shown as a percent of liabilities and capital combined) was long-term debt (excluding subordinated debentures), which accounted for 29.7% of the total liabilities and capital at the end of 1981. Other sources of funds included: commercial paper of 11.2%, bank loans of 5.9%, thrift certificates of 4.3%, subordinated debentures of 4.8% and capital and surplus of 16.3%.

Income and Expenses of Consumer Finance Companies

Accounts receivable now provide a smaller share of the gross income of finance companies than in the early 1970's. This has come about as consumer finance companies have diversified into other activities. Some have expanded into financing durable goods and commercial financing, and other companies have purchased, or merged with, retail outlets. Leasing has also brought in additional income. Some finance companies, through subsidiaries, have entered or expanded insurance operations—writing not only credit life insurance but also other forms

TABLE 28

DISTRIBUTION OF LOANS MADE, BY FINANCE COMPANIES RESPONDING TO AFSA QUESTIONNAIRE, BY CHARACTERISTICS OF BORROWERS, 1981

	Percent of Number of Loans Made to:	
	Non-Second-Mortgage Personal Loan Borrowers	Second-Mortgage Loan Borrowers
By Annual Income		
$6,000 or less	3.8	0.7
$6,001 to $9,000	8.5	2.1
$9,001 to $15,000	38.4	20.7
$15,001 to $24,000	26.6	30.7
Over $24,000	22.7	45.8
Total	100.0	100.0
By Age		
Less than 25 years	12.6	5.7
25 to 34 years	37.5	25.3
35 to 44 years	23.3	32.7
45 to 54 years	15.9	23.7
55 to 64 years	9.1	11.0
65 years and over	1.5	1.6
Total	100.0	100.0

Source: AFSA Surveys.

of insurance. In 1981, 23.7% of the gross income of consumer finance companies came from sources other than accounts receivable (Table 33). From total gross income, 15.9% was used for wages and salaries, 1.0% for advertising and publicity, 8.6% for losses and loss reserves, and 24.4% for other operating expenses. After paying out 43.4% of gross income for the cost of borrowed funds, the remaining 6.7% of gross income was divided between Federal income taxes (1.3%) and return on funds invested by the owners (5.4%).

Cost of Funds and Rate of Return

Summaries of the cost of borrowing and rate of return on equity for companies which reported such information in the AFSA surveys for 1981 are shown in Tables 34 and 35.

In general, when all companies in each size category are considered, the cost of borrowing (expressed as a percent of total assets) was higher for the small companies (those with less than $1 billion in receivables) than cost of borrowing for large companies. Accordingly, return on equity shows a pattern in which earnings of the larger companies were generally higher than for the small companies.

While the mean rate of return on invested capital, defined as net income (after payment of income taxes), and expressed as a percentage of net worth, (capital, surplus and retained earnings), for consumer finance companies in 1981 was 5.57% (Table 36), the distinction is evident when the rate for all companies in each of the size groups are compared. Large companies, on average, earned 8.83%, on invested capital, while small companies earned only a 3.65% comparable rate. This is true in spite of the fact that return on equity at those small companies concentrating their business in receivables other than personal loans was relatively high.

TABLE 29

PERCENT DISTRIBUTION OF U.S. HOUSEHOLD POPULATION BY ANNUAL INCOME AND BY AGE, 1981

	1981
By Annual Income	
$6,000 or less	10.5
$6,001 to $ 9,000	14.9
$9,001 to $15,000	14.4
$15,001 to $24,000	23.6
Over $24,000	36.5
Total	100.0
By Age	
Less than 25 years	7.3
25 to 34 years	23.1
35 to 44 years	18.3
45 to 54 years	15.0
55 to 64 years	15.5
65 years and over	20.7
Total	100.0

Source: Bureau of the Census.
Note: Parts may not add to totals due to rounding.

TABLE 30

ASSETS OF COMPANIES RESPONDING TO AFSA QUESTIONNAIRE DECEMBER 31, 1981

	Reporting Companies with Receivables of $1 Billion or more	Reporting Companies with Receivables of less than $1 Billion	All Reporting Companies
	(In millions of dollars)		
Personal loans	20,775	4,910	25,685
Retail automobile paper*	43,223	392	43,615
Other consumer receivables	6,936	455	7,391
Business receivables**	34,900	343	35,243
Subtotal	105,834	6,100	111,934
Deduct reserves for unearned income	15,056	996	16,052
Subtotal	90,778	5,104	95,882
Deduct reserves for losses	1,757	160	1,917
Subtotal	89,021	4,944	93,965
Cash and Noninterest deposits	1,104	79	1,182
Time Deposits	239	54	293
U.S. Gov't & Other Marketable Securities	5,288	201	5,489
Other Loans & Investment	8,786	229	9,015
Other assets	5,032	237	5,269
TOTAL ASSETS	109,469	5,744	115,213
		(Number)	
Number of companies	16	114	130
Number of offices	8,956	3,403	12,359

Source: American Financial Services Association.
Note: Parts may not add to totals due to rounding.
* Includes retail automobile contracts for business purposes.
** Excludes retail automobile contracts for business purposes.

TABLE 31

PERCENTAGE DISTRIBUTION OF LIABILITIES, CAPITAL AND SURPLUS FOR CONSUMER FINANCE COMPANIES* RESPONDING TO AFSA QUESTIONNAIRE DECEMBER 31, 1977-1981

Balance sheet item	1977	1978	1979	1980	1981
Notes payable to banks					
Short term	4.6	3.7	3.4	2.4	3.4
Maturity greater than 1 year	3.4	3.7	2.8	2.7	2.5
Commercial paper	10.5	10.4	12.3	12.9	11.2
Other short-term debt	3.4	4.2	5.0	5.8	10.4
Deposit liabilities and thrift certificates (short-term)	4.3	3.5	3.7	3.2	4.3
Other current liabilities	5.7	4.9	7.3	6.4	4.7
Long-term debt (excluding subordinated debentures)	37.1	33.8	33.2	36.1	29.7
Subordinated debentures and notes	7.7	6.4	5.4	5.5	4.8
Other liabilities	3.0	11.1	10.1	7.3	12.7
Capital and surplus	20.3	18.3	16.7	17.5	16.3
Total	100.0	100.0	100.0	100.0	100.0

Source: American Financial Services Association.
Note: Parts may not add to totals due to rounding.
* Finance companies with at least 50% of receivables in personal loans.

Regulation of Finance Companies

All of the Federal and state statutes and regulations affecting corporations, partnerships and proprietorships generally apply to such organizations which provide consumer installment credit. In addition, finance companies are subject to special statutory provisions governing their operations by each of the states in which they operate, the District of Columbia, and Puerto Rico.

Some statutes which deal with retail sales finance require that the contract disclose certain information pertaining to the transaction but do not set maximum rates. Other statutes deal with goods only, others deal with goods and services, some deal only with motor vehicle sales finance agreements. Where the statute deals with motor vehicle sales there is generally a classification of cars by model years.

In most states, the supervisory authority is a division of the Banking Department which is frequently empowered to supplement the statutes by promulgating rules and regulations. In other states, similar powers rest with other agencies or departments, for example, in Ohio with the Director of Commerce and in California with the Commissioner of Corporations.

State laws require cash loan licensees to report on their operations annually to the State supervisory authorities. In practically all states, annual examination by these authorities is required by law and examinations at other times are permitted. The costs of such examinations, in addition to the annual license fee for each operating office, are in most states borne by the licensees.

While larger loans are made under various statutes, including second mortgage laws, many of the installment loans of consumer finance companies are still made under provisions of laws derived from and containing the essential elements (although not all of the specific provisions) of the "Uniform Small Loan Law" originally promulgated by the Russell Sage Foundation in 1916, or in terms

TABLE 32

SOURCES AND USES OF GROSS INCOME IN 1981 OF COMPANIES RESPONDING TO AFSA QUESTIONNAIRE

(In millions of dollars)

	Reporting Companies with Receivables of $1 Billion or more	Reporting Companies with Receivables of less than $1 Billion	All Reporting Companies
Sources of Gross Income			
Accounts receivable	13,999	1,058	15,057
Other	2,551	235	2,787
Total	16,550	1,293	17,844
Uses of Gross Income			
Expenses other than cost of borrowed funds:			
Wages and salaries	1,607	259	1,866
Advertising and publicity	84	13	96
Net losses and reserves	953	135	1,088
Other	2,017	268	2,285
Subtotal	4,661	675	5,336
Cost of borrowed funds	10,261	575	10,835
Federal income taxes	567	7	574
Net income	1,062	36	1,099
Total	16,550	1,293	17,844

Source: American Financial Services Association.
Note: Parts may not add to totals due to rounding. See Table 30 for number of offices covered in this report.

of the "Model Consumer Finance Act" drawn up by the National Consumer Finance Association in 1948. The terms "Uniform Small Loan Law" and "Model Consumer Finance Act" have come to be used interchangeably. Regulatory features consist of provisions with respect to the following: 1) licensing by a State supervisory official, 2) supervision by a State supervisory official having powers to enforce and interpret the law, 3) authorization of adequate charges to permit a complete service, 4) limitation of charges, 5) regulation of contract provisions, 6) disclosure of terms and status of loan transactions, 7) prohibition of evasions and subterfuges, and 8) penalties and enforcement powers. The restrictive provisions of many of these laws prevented finance companies from lending competitively with other institutions and in order to become more competitive, finance companies have in recent years encouraged less restriction in lending laws under which they operate.

Industrial Banking Companies

The generic term "industrial banking companies" is used to include those institutions which are chartered by state law to extend installment credit to consumers and to accept some form of savings deposit or sell investment certificates or certificates of deposit as at least a partial means of financing the operation. By vir-

TABLE 33

GROSS INCOME OF FINANCE COMPANIES WITH OVER 50% OF RECEIVABLES OUTSTANDING IN PERSONAL LOANS SELECTED YEARS, 1976-1981

(Percent of gross income)

Sources of Gross Income	1976	1977	1978	1979	1980	1981
Accounts receivable	78.7	76.9	77.7	74.0	68.6	76.3
Other	21.3	23.1	22.3	26.0	31.4	23.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
Uses of Gross Income						
Expenses other than cost of borrowed funds:						
Wages and salaries	20.3	20.1	18.8	17.5	16.1	15.9
Advertising and publicity	1.4	1.6	1.6	1.4	1.0	1.0
Net losses and reserves	11.8	9.6	8.9	10.3	12.6	8.6
Other	23.1	24.7	22.9	21.5	23.2	24.4
Subtotal	56.6	56.0	52.2	50.7	52.8	49.9
Cost of borrowed funds	24.7	24.5	28.1	33.8	35.2	43.4
Federal income taxes	5.6	5.8	6.0	3.4	2.3	1.3
Net income	13.1	13.7	13.7	12.1	9.6	5.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: American Financial Services Association.
Note: Parts may not add to totals due to rounding.

TABLE 34

ESTIMATED OVERALL COST OF BORROWING IN 1980 AND 1981 FINANCE COMPANIES, BY SIZE OF COMPANY

	(In percent)						(Number of companies)	
	1980			1981			1980	1981
Companies with Consumer Credit Outstanding of:	High	Low	Median	High	Low	Median		
$500 million and over	14.24%	9.84%	10.93%	15.25%	10.44%	14.00%	20	12
$150 million and less than $500 million	12.16%	8.90%	10.50%	16.41%	11.60%	13.71%	6	9
$50 million and less than $150 million	15.07%	10.50%	12.21%	18.40%	12.33%	15.04%	12	14
Less than $50 million	20.18%	6.50%	13.45%	21.33%	6.56%	14.00%	67	41
Total	20.18%	6.50%	12.40%	21.33%	6.56%	14.09%	105	76

Source: American Financial Services Association.

TABLE 35

ESTIMATED RETURN OF EQUITY IN 1980 AND 1981
FINANCE COMPANIES, BY SIZE OF COMPANY

	(In percent)						(Number of companies)	
	1980			1981				
	High	Low	Median	High	Low	Median	1980	1981
Companies with Consumer Credit Outstanding of:								
$500 million and over	18.29%	3.68%	9.94%	18.00%	1.05%	10.64%	18	12
$150 million and less than $500 million	11.98%	Loss	5.40%	7.80%	Loss	4.90%	7	9
$50 million and less than $150 million	20.70%	2.60%	8.75%	14.55%	Loss	5.45%	13	14
Less than $50 million	39.45%	Loss	4.80%	55.71%	Loss	5.29%	55	36
Total	39.45%	Loss	7.50%	55.71%	Loss	6.95%	93	71

Source: American Financial Services Association.

TABLE 36

RELATION OF INCOME TO OUTSTANDINGS, ASSETS AND EQUITY
CONSUMER FINANCE COMPANIES*
SELECTED YEARS, 1976-1981

	1976	1977	1978	1979	1980	1981
Finance charges collected as a percent of year-end net outstandings	19.3%	18.5%	17.8%	16.7%	18.4%	18.8%
Cost of borrowed funds and net income as a percent of total assets at year-end						
Total	6.59%	6.61%	6.91%	7.50%	8.27%	8.62%
Cost of borrowed funds	4.30%	4.24%	4.65%	5.51%	6.50%	7.72%
Net income after taxes	2.29%	2.37%	2.26%	1.99%	1.77%	0.91%
Net income after taxes as a percent of capital, surplus and undivided profits	10.7%	11.7%	12.4%	11.9%	10.1%	5.6%

Source: American Financial Services Association.
* Finance companies with more than 50% of receivables in personal loans.

tue of their membership in Automated Clearing Houses and their participation in the direct deposit program of U.S. Treasury checks, industrial banks are distinguished from (non-depository) finance companies as being depository institutions. Legislative changes were made during 1982 that further that distinction. The definitions of "state bank" and "deposit" have been expanded to include industrial banks and their deposit-like instruments.

The latest collated information in some detail on industrial banking companies available is for the year 1981. Major changes in the eligibility of industrial banks for FDIC insurance have been brought about by President Reagan's signing of the Garn-St Germain Depository Institutions Act of 1982. Industrial banking companies operate in twenty-two states under various names, depending on the particular laws of the states in which they operate. Published statistical data on industrial banking companies are limited. Table 37, which covers eleven states, gives an indication of the changes in the

TABLE 37

NUMBER OF INDUSTRIAL BANK OFFICES OPERATED
1979, 1980, 1981

	Number of Offices		
	1979	1980	1981
California[a]	449	484	496
Colorado	115	131	148
Hawaii	247	249	236
Indiana[b]	18	18	15
Iowa	341[d]	313[d]	233[e]
Kentucky[c]	367	347	250
Minnesota	216	201	163
Nebraska[c] (Number of companies)	30	34	36
Rhode Island	22	22	na
Utah	137	93	109
West Virginia			
June 30	50	44	
December 31		126	128

a - Thrift companies only
b - Loan investment companies issuing certificates of investment, year ending June 30.
c - As of June 30.
d - Includes 9 out-of-state companies holding non-resident industrial loan licenses.
e - Includes 8 out-of-state companies holding non-resident industrial loan licenses.

number of offices operated between 1979, 1980, and 1981. For the same states, Table 38 shows a breakdown of assets, which totaled $5.8 billion at year-end 1981, up from $5.1 billion in 1980. Table 39 shows the total liabilities and net worth of industrial banking companies which, at year-end 1981 held deposits and thrift investment certificates of $3.2 billion, up from $2.7 billion in 1980.

State deposit insurance corporations for industrial banks have been formed and are known generically as Guaranty Corporations in the states of California, Colorado, Hawaii, Iowa, Kansas, Nebraska, Nevada, Rhode Island, and Utah. These corporations serve the specific purpose of guaranteeing the deposits of these industrial banking companies. Deposit guarantees by these corporations initially brought additional deposits into the industrial bank companies. However, as the amounts of deposit insurance for savings and loans and commercial banks were increased (from $10,000 to $40,000, and again in 1980 to $100,000), it became less attractive to keep deposits at industrial bank companies since other types of depository institutions were insured for larger amounts.

Uniform Consumer Credit Code

As with other consumer credit institutions, finance companies and industrial banking companies are subject to the Uniform Consumer Credit Code (UCCC) in those states where it is in effect—Colorado, Idaho, Indiana, Kansas, Maine, Oklahoma, Utah, and Wyoming. Other states, such as Louisiana, Alabama, West Virginia and Wisconsin, have passed general statutes containing various elements of the UCCC.

With the entry of various institutions such as finance companies, industrial banking companies, commercial banks, credit unions, retailers, savings and loan associations and mutual savings banks into the consumer credit business, the laws applicable to each type of institution were amended. In the absence of previous legislation, new laws were passed to regulate the consumer credit aspects of these businesses. As a result, most states have a number of laws which vary among themselves as to rates, supervision and other legal requirements.

The UCCC provides one overall regulatory law to replace all existing state consumer credit laws, including loan laws, sales finance and revolving credit laws, usury laws and laws regulating insurance premium financing, home repair financing and second mortgages on homes. Consumer credit as defined by the UCCC consists of loan and sale credit to individuals for personal, family, household or agricultural purposes, including the purchase of a home or farm, when there is a charge for the credit or the credit is repayable in installments. The UCCC would regulate all consumer credit as defined for amounts up to $25,000, with provisions for increasing the ceiling based on increases in the Consumer Price Index.

The UCCC would fix the same maximum rates for all types of consumer credit grantors. In summary, the maximum rates for installment credit (loans and sales) are 36% per year on the first $300, 21% per year on the next $700, and 15% per year on the remainder, with the provision that each step would be increased based on changes in the Consumer Price Index. When these graduated rates yield less than 18% per year, the maximum is 18% per year.

The UCCC also includes significant consumer protection provisions as to disclosure of contract terms, advertising, balloon payments, security, garnishment and other creditors' collection remedies, unconscionable or fraudulent conduct, "cooling-off" period for door-to-door sales, referral sales, rescission of contracts secured by the debtor's home, and official surveillance and enforcement by an Administrator. There are heavy civil and criminal penalties specified for violations of the UCCC.

The revisions contained in the UCCC (1974) reflected changes in response to many of the recommendations made by the National Commission on Consumer Finance established by the Consumer

TABLE 38

ASSETS OF INDUSTRIAL BANKING COMPANIES, BY STATES, YEAR-END 1981

(In thousands of dollars)

	Installment Loans	Retail Installment Contracts	Real Estate Mortgages	Other Loans and Contracts	Cash on Hand and in Banks	Other Assets[a]	TOTAL
California	596,044	589,278	-------	60,227	30,128	-58,038	1,217,639
Colorado	570,141	55,283	-------	-----	46,202	58,291	729,916
Hawaii	178,867	52,547	603,720	52,793	38,460	174,508	1,100,895
Indiana	267,907[b]	-------	-------	-----	10,968	28,104	306,979
Iowa	378,294	-------	-------	61,176	5,676	28,027	473,173
Kentucky[c]	160,907	4,674	-------	-----	1,980	68,392	255,953
Minnesota	254,724[f]	-------	-------	-----	2,727	23,472	280,923
Nebraska[c]	273,751[b]	-------	-------	-----	18,962	72,494	365,207
Rhode Island[d]	312,631[b]	-------	-------	-----	29,852	92,065	434,548
Utah	434,460[f]	-------	-------	-----	27,380	60,523	522,363
West Virginia	86,666[f]	-------	-------	-----	6,565	13,306	106,537
TOTAL	3,293,392	701,782	603,720	174,196	218,900	516,144	5,794,134

a - Includes deductions for unearned charges, loss reserves, dealer reserves.
b - Includes all loans and investments.
c - As of June 30.
d - Year-end 1980.
e - As of July 10, 1981.
f - Includes all receivables - adjusted net.

Credit Protection Act. The revised UCCC substantially implements the National Commission's recommendations as to buyers' defenses in installment and credit card sales and in sale-related loans, deficiency judgements, service of process, limitations on garnishment, debt collection practices, door-to-door sales and cosigner agreements.

Consumer Credit Protection Laws

Finance companies and industrial banks, like all other creditors, are subject to the Federal Consumer Credit Protection Act and other laws which mandate special procedures concerning credit or information about consumer borrowers.

Federal protection of consumer borrowing began in 1968 with the passage of the Consumer Credit Protection Act. Title I of this legislation, the Truth in Lending Act, mandated that creditors provide disclosure of credit terms to promote the informed use of credit by consumers. It also required the Board of Governors of the Federal Reserve System to prescribe regulations to carry out the purposes of the act. Specific Federal agencies administer the Board's regulations. Pursuant to congressional instructions, the Board issued Regulation Z, which provided, among other things, for disclosure of the actual "finance charge" for credit and of the effective "annual percentage rate" to be calculated by using standardized methods.

TABLE 39

LIABILITIES AND NET WORTH OF INDUSTRIAL BANKS, BY STATES, YEAR-END 1981

(In thousands of dollars)

	Deposits	Thrift Investment Certificates	Short-term Borrowing	Debentures and Capital Notes	Notes Payable	Other Liabilities	Net Worth	TOTAL
California	-------	963,275	8,542	-------	55,584	31,256	158,982	1,217,639
Colorado	68,937	252,705	36,017	1,160	218,690	53,604	98,803	729,916
Hawaii	-------	480,130	307,782	7,074	-------	149,509	156,400	1,100,895
Indiana[a]	-------	249,319	-------	163	845	34,364	22,288	306,979
Iowa	-------	181,445	94,712	51,715	-------	9,247	136,054	473,173
Kentucky[b]	-------	9,442	-------	-------	166,055	46,011	34,445	255,953
Minnesota	-------	52,988	26,574	-------	110,704	5,371	85,286	280,923
Nebraska[b]	-------	304,321	-------	-------	1,814	20,259	38,813	365,207
Rhode Island[c]	69,718	217,099	-------	-------	77,794	34,314	35,623	434,548
Utah	-------	312,441	-------	5,683	92,249	18,265	93,465	522,363
West Virginia[b]	-------	33,180	-------	-------	873	30,917	41,567	106,537
TOTAL	138,655	3,056,345	473,627	65,795	724,608	433,376	901,727	5,794,139

a - Loan investment companies issuing certificates of investment, year ending June 30.
b - As of June 30.
c - Year-end 1980.
d - As of July 10, 1981.

Since this initial action, the Congress has amended the Truth in Lending Act repeatedly and has also enacted new consumer credit laws as follows: Fair Credit Reporting Act (1970), Credit Card Amendments to Truth in Lending (1970), Technical Amendments to Truth in Lending (1974), Fair Credit Billing Act (1974), Equal Credit Opportunity Act (1974), Federal Trade Commission Improvement Act (1975), Home Mortgage Disclosure Act (1975), Equal Credit Opportunity Act Amendments (1976), Consumer Leasing Act (1976), Fair Debt Collection Practices Act (1977), Community Reinvestment Act (1977), and Electronic Funds Transfer Act (1978). As Title VI of the Depository Institutions Deregulation and Monetary Control Act of 1980, "Truth in Lending Simplification" was enacted.

The administrative structure for many of these laws parallels that of the Truth in Lending Act. The Congress states its general intent and instructs the Board of Governors of the Federal Reserve System to issue regulations that apply to institutions granting consumer credit. Thereafter the Federal agencies with primary supervisory responsibility for each class of creditors administer the Board's regulations for those creditors.

Report of the National Commission on Consumer Finance

The Consumer Credit Protection Act of 1968 also created a National Commission on Consumer Finance, whose duty was to study and appraise the functioning and structure of the consumer finance indus-

try, as well as consumer credit generally. The Commission made its report to the President and Congress on December 31, 1972.

The Commission concluded that a truly competitive consumer credit market, with adequate disclosure of relevant facts to an informed consuming public, together with legislation and regulation to eliminate excesses, will foster economic growth and serve to optimize benefits to the consumer. As to excesses in the marketplace, the Report recommended significant additions to the protection of consumers in the fields of creditors' remedies and collection practices, urging restrictions on remedies such as garnishment, repossession and wage assignment, and recommending abolition of the holder in due course doctrine, confessions of judgement and harassing tactics in debt collections.

The Commission's research studies contain the empirical data, information and analysis relied upon by the Commission. These six technical studies are as important as the Report itself and provide some data not available elsewhere.

One of the research volumes by the National Commission on Consumer Finance released early in 1974 (Technical Studies, Volume III), contains many tables of information on installment credit by states at mid-1971—the only attempt at a comprehensive state-by-state compilation.

Electronic Fund Transfer Systems

The development of Electronic Fund Transfer Systems (EFTS) has hastened an evolution in the payments system in which the commercial banking system is no longer the exclusive vendor of the means of money transfer. A growing number of institutions and industries outside of banking are offering money or near-money deposit arrangements and providing money transfer services.

The major contenders for money transfer powers have been the nonbank depository institutions: savings and loan associations, mutual savings banks, credit unions and industrial banks. Non-depository consumer finance companies, credit card companies, retailers, insurance companies and new institutions (such as money market funds) are displaying increased interest in the direct transfer of funds. Technology has been the instigator in this area and legislation has been passed which is permitting changes whereby commercial banks may be bypassed in funds transfers.

Over the past two decades, the operations of financial institutions have become increasingly computerized, but mostly in ways that did not directly affect the manner in which ordinary Americans transact their financial affairs. In the last few years, however, the consumer has begun to be offered computerized services that take over some of the functions of checks and currency. Many depository institutions now offer automated deposit and withdrawal services; many social security recipients and employees have their checks deposited electronically into their accounts; and some consumers are able to pay bills directly, without the use of cash or checks. These services are being facilitated by the technology that has become known as electronic fund transfers (EFT).

To learn more about EFT and to obtain a variety of views on the appropriate public policy toward EFT, the Congress established the National Commission on Electronic Fund Transfers to study and report, with recommendations, on all aspects of EFT with which the Congress should be concerned.

The Final Report of the National Commission on Electronic Fund Transfers which was released on October 28, 1977, was divided into eight parts: The Commission and Its Work; The Consumer and EFT; Developmental Issues in EFT; Technology and EFT; Roles of the Federal Government in EFT; and International Developments in EFT.

Part 7 offers the separate statements of various Commissioners on various issues. Part 8 provides a series of nine appendixes containing the text of the Act which established the Commission, the votes of Commissioners on certain recommenda-

tions, a description of the payments system in the United States, and several descriptive appendixes regarding the Commission's work.

The Report reflects the Commission's recognition that EFT is in the midst of an evolutionary process and that only the first steps had at that time been taken in its potential development. The Commission adopted the principle that the growth of EFT should take place in a competitive environment, that EFT should be viewed as an alternative means to provide payments services and that all evidence suggests that today's paper-based system will remain in operation indefinitely. The Commission also accepted the thesis that the future of EFT is inextricably tied to consumer acceptance.

Essentially, the Commission viewed EFT only within the existing institutional framework. It did not attempt to offer alternative scenarios for possible development in the future. By virtue of this approach, finance companies which offer only credit and have no deposit capability, were considered in relation to credit markets and information transfer services but not in relation to funds transfer services. In contrast, industrial banking companies, which offer passbook or other deposit-like consumer services, would be included among the thrift institutions and subject to the conclusions and recommendations of the Commission.

DIDMCA

The Depository Institutions Deregulation and Monetary Control Act of 1980, which became law on March 31, 1980, will have as far-reaching effects on financial institutions as did the Federal Reserve Act of 1913 and the various banking legislation of the 1930's. Through its nine titles consisting of 101 sections, the Act will have impact on the operations of all financial institutions, both depository and nondepository.

The Act will change the nature of our monetary system. All accounts of depository institutions subject to transfer of funds to third parties are incorporated into our country's medium of exchange. To effect this modernization of the monetary concept, the Act introduced the concept of "transaction account" which is defined as any deposit or account on which the depositor or account holder is permitted to make withdrawals payable to a third party. The Act also introduced the concept of the "non-personal time deposit" which is a transferable time account in which any beneficial interest is held by a depositor who is not a natural person. Beginning September 4, 1980, all depository institutions (banks, savings and loan associations and credit unions) were required to maintain reserves against such accounts. Members of the Federal Reserve System are to be phased down to this new structure of reserve requirements over a three and one-half year period. Non-member banks, savings and loan associations, credit unions and industrial banks are to be phased into the reserve requirements over an eight-year period. Depository institutions subject to these reserve requirements also have access to the Federal Reserve services.

The Act continues to alter the form and substance of regulations applied to depository institutions. To monitor and control monetary and credit aggregates, the Federal Reserve Board will require reports of assets and liabilities of all depository institutions including those that are not federally insured. The latter will be accomplished through such state officer or agency as the Board may designate. To phase out the limitations on maximum rates of interest on deposits (Regulation Q) over a six-year period, the Act created a Deregulation Committee consisting of the Secretary of the Treasury, the chairmen of the federal regulatory agencies of depository institutions and the Comptroller of the Currency. The committee's assignment was to provide depositors with a market rate of return on their savings, a task largely complete by the end of 1982.

The Act provides for a redefinition of money and near-money, that is, demand deposits, time deposits and savings deposits. The Deregulation Committee has the authority to prescribe rules governing

the payment of interest by all federally insured depository institutions and to establish classes of deposits or accounts. This may be done by the gradual increase in such limitations, the complete elimination of limitations on particular accounts, the creation of new categories of accounts, the combination of any of these methods, or by any other method. On March 31, 1986, all powers transferred to the committee under the Act will terminate and the committee will cease to exist.

The Act has expanded the powers of the savings and loan associations to provide services as well as to obtain funds. Subject to regulations of the Federal Home Loan Bank Board, savings and loan associations may engage in or participate in credit card operations, offer loans specifically related to negotiable order of withdrawal (NOW) accounts, offer mortgages under certain circumstances of over 90% of appraised value, offer second mortgages and offer, with limitations, consumer loans and commercial real estate loans. As a source of funds, savings and loan associations may now issue mutual capital certificates which may be used as a part of the general reserve and net worth but must be subordinate to all savings accounts, certificates and debt obligations. Any state (stock) savings and loan association that existed in stock form by March 31, 1976 may convert to a federal (stock) charter under specified conditions.

The Act preempts state usury ceilings permanently in certain instances and is subject to override by state action in others. Usury provisions of state constitutions or laws affecting first liens on residential real property and manufactured homes taken after March 31, 1980, were preempted subject to override by state action after April 1, 1980, and before April 1, 1983. A somewhat similar provision for business or agricultural loans of $1,000 or more applied, except that a rate of not more than 5% above the Federal Reserve Bank discount rate was permitted. The preemption was subject to state override and expired on April 1, 1983. Insured state banks and thrift institutions, and small business investment companies may charge a rate of 1% above the basic Federal Reserve discount rate with no terminal date, but subject to state override. State restrictions on the rate of interest that may be paid on deposits are eliminated.

The Act amends the Truth in Lending Act to simplify and reduce the number and detail of disclosures and to make them more understandable. This part of the Act went into effect on October 1, 1982.

In summary, various sections of the nine titles of the Act have made and will continue to make changes in our financial system which will impact upon many aspects of the operations of industrial banking companies. The Act will introduce more competition to the lending operations of finance companies, their markets for funds, and the legal framework under which they operate. The Act has created a new status for savings and loan associations including opening the federal charter to corporate stock savings and loan associations.

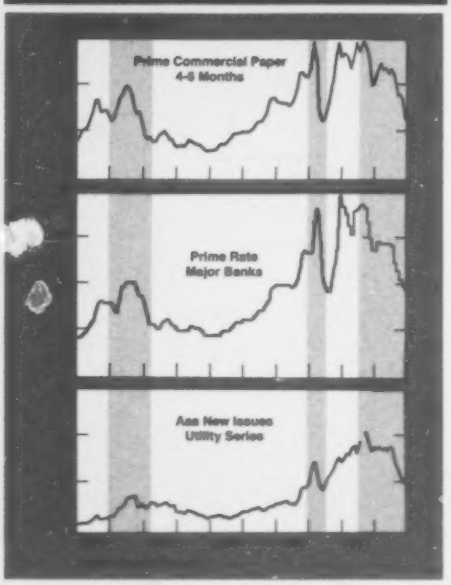
Probably the most important, as well as the most acclaimed economic characteristic of 1982 has been the significant slowdown in inflation, from the double-digit levels of previous years to a 6.0% annual rate for 1982, as measured by the Bureau of Labor Statistic's consumer price index annual averages and changes. Credit for this progress has been largely claimed by the Federal Reserve, as the result of its anti-inflationary monetary policy adopted some three years ago, although the inherently anti-inflationary effects of our recent prolonged recession experience should of course not be overlooked in considering this decline in inflation. The Fed has also acknowledged the high unemployment "cost" attendant to its policy, and has undoubtedly been at least partially responsible for maintaining an historically high level of interest rates through its basically tight monetary policy.

Chart 26 traces three key interest rates through ten years, and shows a clearly downward trend throughout 1982 al-

though the overall level of rates is still significantly higher than the historical norm. It is this high level, despite the downward trend, which seems to be the major stumbling block to the recovery beginning in early 1983. As a result of the large increases in the money supply measures, partly brought about by the introduction of the new deposit accounts at the end of 1982, speculation has arisen as to whether the Fed will begin to tighten up on the money supply in the near future. While the Fed and the Reagan Administration disagree loudly on whether tight money or unprecedented deficits projected to be over $200 billion will cause rates to either slow their decline or even to rise again, both agree with economists that unless interest rates make it more attractive to borrow and invest money in productive activity, they may choke off the still tenuous recovery.

CHART 23

INTEREST RATES, 1973-1982
(MONTHLY AVERAGES OF DAILY FIGURES)



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